

# CURRENT HISTORY

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## Borah and World Politics

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ON March 4 a number of our best-known Senators will take down their black wide-awake hats from their office pegs, fumble in their pockets for their tickets and vanish from Washington for years to come, if not forever. Some of them will be missed—with a sense of relief. Immediately thereafter marked changes will occur in the committee organization of the Senate. In particular, William E. Borah, now approaching 70, his shaggy brown mane long since tinged with gray, will turn over the chairmanship of the Foreign Relations Committee to some successor—presumably Claude A. Swanson of Virginia. Borah is now in his fifth term, for he has been in the Senate ever since the muckraking days of 1907, when he arrived with all the laurels of his prosecution of Big Bill Haywood, Moyer and Pettibone fresh on his brow. For seven eventful years

he has been chairman of the Foreign Relations Committee. The remainder of his term he will presumably serve in a less conspicuous station, and the fact offers an opportunity for a review of the road which he has traveled in his labors with foreign affairs.

Of recent years a somewhat exaggerated view of the importance of the Foreign Relations Committee has been current, especially in Europe. This misapprehension is founded primarily upon the rôle which the committee played in the years 1919-20, in the defeat of the peace treaty and the League of Nations. In the strategy by which Senators Lodge, Knox and others delayed the treaty, worked up prejudice of a thousand kinds against it and the allied nations, and finally destroyed much of President Wilson's handiwork, control of the committee was of primary importance. It seemed to many observers that this body was actually in charge of American foreign policies and that its head exercised a sort of dictatorship over our international relations. This impression was accentuated when Chairman

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Lodge used his position to deliver a wanton insult to Japan, and to shelve the World Court completely despite the rather feeble pleadings of both President Harding and President Coolidge.

The truth is, of course, that the Foreign Relations Committee has nothing to do with the formulation of foreign policies. The conduct of American external relations rests entirely with the President and Secretary of State. It is only when their policies come before the Senate in a treaty, convention or bill that the Foreign Relations Committee possesses any authority over them. President Wilson initiated all the great steps on foreign policy during his administration. Presidents Harding and Coolidge, aided by Secretaries Hughes and Kellogg, did so during their terms. These four last-named leaders were strongly influenced by the isolationists of their party, but the isolationists had no necessary connection with the Foreign Relations Committee. It is true, to be sure, that Presidents frequently consult the chairman of the committee. Borah has been so consulted many times, and with his flair for publicity has never failed to let the world know of the fact. But this is a matter of practical politics entirely. In the past Presidents have largely ignored the Foreign Relations Committee, and Grant summarily deposed its chairman, the powerful Charles Sumner, when he proved unruly. In ordinary times the committee amounts to much less than foreign observers, dazzled by Senator Borah's talks with M. Laval and Signor Grandi, suppose.

Nevertheless, the prestige which it has attained since the World War is in some measure a tribute to the powers of the late Senator Lodge and Senator Borah. These two men secured their authority by very different gifts and methods. Lodge, calculating, vindictive, and deeply prejudiced on almost every subject, was a master of intrigue and manipulation. He fought his battles largely behind the scenes.

Never a man who commanded general popularity or admiration, his power lay almost entirely within the Senate and its back-rooms. He profited by the wave of revulsion against the war—by the fact that Americans were tired of idealism, tired of foreign enterprises, suspicious of Europe, alarmed by the racial antagonisms in the nation. But he never aroused mass feeling himself, and his principal talent was for laying plots, playing upon rancors, manoeuvring groups and individuals into joint action, and thus keeping at least a third of the Senate behind his designs. He had a mind that was both narrow and closed, and he never changed his opinion about anything.

Borah's personality is in every way different. Frank, honest, quite incapable of plots and manipulations, he has founded his power upon open discussion. He could not make up a cabal if he would, because his Senatorial associates distrust him as a wayward, incalculable and fiercely independent soul. They know that far from being a hatcher of Machiavellian schemes, he seldom works long with even a dozen other men. But by his candor, integrity and courage, all conjoined with rare intellectual power, he has won a strong following. He is a formidable fighter on the Senate floor. When he speaks, the whole nation listens. He differs again from Lodge in making few enemies, for he is never personal, rancorous or bitter in his encounters. He differs still more in the openness and flexibility of his mind, and in his ability to change and grow.

It follows from all this that his loss of the chairmanship of the Foreign Relations Committee will result in no great diminution of his influence. He was not chairman when he performed his greatest single feat, that of compelling the Harding administration—because despite President Harding's subsequent denials he probably did compel it—to issue a prompt call for the Washington Naval Conference. He need not be chair-



man to perform similar feats in the future. When he makes a speech it will still have the applause of the radical weeklies and the ear of the West and of Europe. At bottom, his power is that of an intensely earnest and sincere soul, possessing a vibrant patriotism and a strong feeling for the common man, and all the more picturesque because he is erratic. This power he exercises quite independently of any office—least of all a mere committee chairmanship. It was not because of his chairmanship that M. Laval sought him out, and that his utterances in favor of revising the peace treaties, especially as to the Polish Corridor and Hungarian boundary, were heard in Berlin and Warsaw. It was because his candor, energy, and eloquence have made him the one Senator who comes anywhere near holding the place which Clay and Webster held before 1850. By nature he is far better fitted to work as a minority leader than with any majority.

The best light in which to view Mr. Borah's chairmanship of the Foreign Relations Committee is as a continuous and effective educational influence upon Mr. Borah. There can be no doubt that it has been just that. There can be no doubt also that he needed the education badly, and did so for reasons which have not been generally or clearly understood.

In foreign affairs, as in domestic matters, one easy explanation of Senator Borah's devious course has always been that he is naturally a dissenter, a destructive statesman. We are told that he has a passion for wreckage; that no one since Jerry Simpson has been so prompt in attacking other men's schemes and so weak in suggesting substitutes. He has also been accused of a certain vanity in always taking the negative side, in posing as a "no man" in a period all too full of "yes men." In both accusations there is a measure of truth. Borah has always made it clear that he does not wish to be a con-

structive statesman in the sense of constructing useless machinery, making two laws blossom where one blossomed before, and erecting new commissions, bureaus and institutions whose chief function will be to hedge in the human soul. He has the frontiersman's simple distrust of too much law and too complex a government. He has also made it clear that he believes too few Senators say "no." "It is far simpler to agree than to disagree in Washington," he once remarked. "If there is an atmosphere in God's world that weakens a man's backbone, it is the Washington atmosphere. The deleting process is constant and drastic." He has built up a defensive tendency to take the opposition side whenever he sees that the Senatorial herd is moving in one direction.

But no easy formula of dissent explains Mr. Borah. His course is much too complicated, and his work contains too much that is constructive as well as destructive. If he says no at one time, he has proved himself willing to say yes at another. It is true that he helped, with unfair weapons, to defeat the League. But he was the first important statesman to espouse, as early as 1922, the doctrine of the outlawry of war; and the subsequent development of that principle in the Kellogg-Briand pact and the so-called Stimson Doctrine proves it a constructive idea of importance. He made a strenuous fight a decade ago against the debt settlements with France and Italy, apparently on the ground that the more severe settlement with Great Britain fixed a standard to which the other nations should be held. It is now clear that he was wrong. The French and Italian settlements were better than the British settlements; if anything, even they were too severe. Yet Borah has gone far toward admitting that he was wrong, and no prominent American politician today takes a more constructive or generous attitude toward debt revision than does he. He has preached in the most em-

phatic terms the importance of debt readjustment to world recovery, and provided certain conditions which he believes fundamental to world recovery are met, such as a greater limitation of armaments, he is willing to go far in a reduction of payments. Borah has opposed the World Court, but he has not asked, as some suppose, a complete and utter rejection of that tribunal. On the contrary, he has repeatedly indicated his belief—a belief that to many seems ignorant and erroneous, but is unquestionably sincere—that once a body of international law has been built up a world court will then be proper, but only then. He has made a number of constructive suggestions regarding disarmament. One of the most recent, the plan of a five-year naval holiday, was immediately endorsed by President Hoover. His advocacy of American recognition of Russia has thus far proved abortive. Three Republican administrations have disregarded it, and till lately his principal convert was no one more impressive than Ivy Lee, but it is based on arguments that are certainly "constructive." To talk of Borah as if he were merely a wrecker is absurd.

Another easy explanation of the puzzling aspects of Borah's course is that they are a natural expression of the Western spirit. Born in Illinois, educated at the University of Kansas, a lawyer in Idaho, he has been imbued, we are told, with the isolationist sentiment of the frontier. In this interpretation there is also a measure of truth, but if pushed very far it becomes fallacious. Other Western leaders, like Porter J. McCumber of North Dakota, Knute Nelson of Minnesota, and Franklin K. Lane of California, have been vigorously opposed to isolationist views. The West is now, and probably always has been, open-minded on the question of our relations with Europe. It knows that its products must be sold in Europe if it is to become prosperous. It realizes that

any European war or depression must profoundly disturb its economy. It is quite as willing to listen to reasonable and courageous arguments on American international responsibilities as any other section. In any event, Borah has for twenty-five years been more of a resident of the East than the West, because he is often to be found in Washington between sessions; and there is no Senator in the country who acts with greater independence of his constituents. He has defied them again and again, as when he voted against the woman suffrage amendment after Idaho women had held the ballot for fifteen years.

The fundamental weakness in Borah's initial approach toward foreign problems has lain deeper than any of these surface explanations would indicate. It was rooted in a basic conflict between his mind and his emotions. If examined closely his record is seen to be that of a man who wished to be a complete realist but was unable to escape certain highly romantic prepossessions. No Senator, strange as it may seem, prides himself more on his devotion to principle and his obedience to logic. He is the sworn enemy of sham and shilly-shallying; he follows the truth no matter where it leads—or so he believes. But, as a matter of fact, he has clung desperately to a few unrealistic and illogical convictions which were implanted in his mind early in life and nurtured by his Western environment. In some ways he is refreshingly clear-sighted. When the marines were withdrawn from Nicaragua he remarked incisively that the United States got out because trade was declining and the economic motive weakening. He sees our Caribbean "imperialism" in as dry and harsh a light as any European. But on other subjects his logic long shivered to pieces against a few unconquerable emotions.

These emotions may be divided into three groups. One is that Europe has a set of primary interests that are

wholly different from our interests; that the designs of European nations are usually sinister; and that European diplomacy is skilled in overreaching younger and more honest peoples. Much of his opposition to the League of Nations was based on this belief. Ah, he exclaimed, how quickly such an association will corrupt us! "Korea, despoiled and bleeding at every pore; India, sweltering in ignorance and burdened with inhuman taxes after more than a hundred years of despotic rule; Egypt, trapped and robbed of her birthright; Ireland, with 700 years of sacrifice for independence—this is the task, this is the atmosphere, and this is the creed under which we are to keep alive our belief in the moral purposes and self-governing capacity of the people." The next few years saw Great Britain freeing Egypt and Ireland, and devising a free constitution for India, while the United States proved its moral purposes and self-governing capacity by the scandals of the Harding administration. A little association with the League of Nations might not have ruined us.

But Borah's beliefs on this head remained unshakable, because they were linked with another of his emotional convictions—that the fathers of the Republic, who taught the little nation of their day to beware of European entanglements, were a group whose wisdom has never been equaled in any country or any era, and whose admonitions to their own time must be followed by uncounted generations. For years Mr. Borah's favorite method of annihilating an opponent was to thunder that "the fathers understood the science of government as no other single group of men ever understood it." For years he felt that he had an especial clairvoyance into Washington's mind. "His idea," declaimed Mr. Borah in 1919, "was that we never could become a nation with a national mind, a national purpose, and national ideal until we divorced ourselves

from the European system." The suggestion that not all eighteenth-century ideas fitted the twentieth century was treason to Senator Borah. He could never force his mind to give it honest scrutiny because his emotions stood in the way.

The third and most important of Borah's early prepossessions, allied with these others, was that the United States needs, above all, a fierce nationalistic patriotism. His nationalism was a doctrine current among Progressives after 1912, and he held on to it tenaciously. It led him to assert that "if the Saviour of men would visit the earth and declare for a League," he would oppose it. "It is a question of policy for my government, and I will decide regardless of individuals. \* \* \* What we need in this country is the fostering and strengthening of the national spirit. The League is the first step in internationalism and the sterilizing of nationalism." More than one of his early speeches was devoted to the same militant gospel preached by Roosevelt. "Are we, indeed, yielding our Americanism before the onrushing tide of revolutionary internationalism?"

In other words, Senator Borah found it necessary to combine a set of conservative traditions, drawn from the distant past, with his progressive tendencies; he had to weaken his realistic appetite for truth and fact with these old romantic preconceptions. Here lies the explanation for all his inconsistencies and waverings. He was the victim of utterly contradictory principles. His fidelity to early sentiments led him to preach nationalism and isolation—two forces logically allied with militarism, imperialism, high protective tariffs, world jealousies and heavy armaments, all of which he detested. He rejected savagely all ideas of internationalism and the one really practical working plan for world cooperation. Yet with these rejected ideas and plans are bound up international peace, international ad-

judication, military disarmament, economic disarmament and international planning to solve social and commercial problems. He was slow to realize how rapidly the modern world moves and how vast a change has overtaken the United States in its development from a weak agricultural nation of 3,000,000 into an immensely powerful, wealthy and closely knit nation of 125,000,000 people. His robust sense and honesty constantly required him to face the facts of America's present-day position in a world where a Wall Street crash shakes Europe and where European poverty means forty-cent wheat in the Mississippi Valley. But his romantic preconceptions required him to stick to Washington's ideas of 1797 upon America's place in the world. Such naïveté is deplorable, but plenty of others are equally naïve in their refusal to see the relationship of the forces which govern foreign affairs, to comprehend that isolation and nationalism in the long run must defeat disarmament and peace.

Mr. Borah is not afraid of apparent inconsistency as such. He opposed the woman suffrage amendment on the ground that it violated States' rights and advocated the prohibition amendment on that very same ground. He was against all bonus legislation, but supported the plan of direct Federal grants for the relief of the unemployed. He was against child labor, but opposed the child-labor amendment. He dissented from our Caribbean policy, but voted against the Isle of Pines treaty and the payment of an indemnity to Colombia for Panama. Nevertheless he wishes always to remain honest and to keep an open mind, with the result that his service as head of the Foreign Relations Committee has witnessed a steady weakening of his romantic notions and a steady extension of the field in which his logic really plays.

The tokens of this changing attitude are numerous. He has consented to a new tone toward Europe. When

he first became chairman, he remarked: "I should add little to my knowledge by infrequent, brief trips to Europe. It is often wiser to stand off and obtain a clear picture. One might become merely confused by first-hand information." Since then he has been abroad and acquired a new esteem for first-hand information. He no longer speaks of the European democracies as a gang of criminals. Similarly, he has taken a new and less impatient tone regarding disarmament. He recently remarked that he thought he fully appreciated the position of nations which lack the natural security given the United States by its geographical position, history and power. In the past two years his stand upon reparations, war debts and the economic problems of the world has been steadily liberalized. As early as M. Laval's visit to the United States in October, 1931, he had the courage to say emphatically that he favored a cut in the war debts if a proportional cut were made in reparations. In this spirit he hailed the results of the agreement at Lausanne to reduce German payments to a trifle. Repeatedly during 1931 he told audiences—as at the opening of the drive of the American-Jewish Joint Distribution Committee—that the world's peace and happiness, including America's, depended upon the rehabilitation of Europe. Early in the world depression he seemed chilly toward proposals for American participation in a general study of economic problems, but in his radio speech of July 23, 1932, he urged the calling of an international conference to consider world recovery, and both the European and American press hailed his change of views.

Most striking of all, in some ways, is the changed tone in which he has sometimes of late spoken of the League of Nations. It is reported that in private conversation he has praised it cordially. When asked in 1928 if the Kellogg pact would interfere with



the activities of the League, he delivered an emphatic denial. "It would not interfere with the League at all," he said. "On the contrary, such an agreement would greatly strengthen the League. The prevailing war system is itself the greatest obstacle in the pathway of Geneva. With war legalized between the great powers, it would soon be possible to obtain a universal treaty completely outlawing war as an instrument of policy in international affairs. Then and only then will the League be free to concentrate upon its constructive and beneficent functions." This admission that its functions are constructive and beneficent marks an impressive step forward since 1919.

The simple fact is that an intelligence far less incisive than Borah's, a mind far less open, would have become convinced by now of the utter bankruptcy of the isolationist and nationalistic policy which the irreconcilables decreed in 1919-20, and which the Harding, Coolidge and Hoover administrations tried to follow with such disastrous results. That policy in its extreme form proved unworkable within a few years. The attempt of the Harding administration to ignore the League and turn its back on cooperation with Europe quickly broke down. It broke down because the League and the new recognition of

world unity were the result of years of activity in which the United States had actively shared. They were the outgrowth of steady and indefatigable labors in which Hay, Root, Roosevelt and Taft, as well as Wilson, had participated. Cooperation represented an essential and unescapable continuation of American policy. Its driving force crushed all obstacles, and the Coolidge and Hoover administrations scrapped more and more of the old attitude. Vestiges of the impossible scheme of isolation—particularly the economic nationalism that we carried to such a preposterous point in the Smoot-Hawley tariff—have had much to do with causing the present plight of the United States and other nations. The advent of the Roosevelt administration will, it may be hoped, mark a decisive turning point. The wreckage can be cleared away; a new and better foreign policy can be built on the old foundations. There is good reason to hope that in this process Senator Borah may furnish important aid. Doubtless his course will in large part continue to be unpredictable and apparently capricious. But he now believes in cooperation. He has learned much in recent years, and he has the ability not only to learn more but also to help bring lagging opinion up to any advanced stand that he cares to take.

# The Outlook for Recovery

By RALPH WEST ROBEY

[As financial editor of the *New York Evening Post* the author of the following article is well known for his daily comment on business and financial conditions. He is also a member of the faculty of the School of Business in Columbia University.]

**M**ONTH after month of deflation and business liquidation in the United States has made it increasingly evident that the old artificial prosperity of 1929 has definitely passed. For the first year or two after the downward trend became apparent the American public held to the belief that there would be a quiet return to the old level and that there would be no necessity of stabilizing conditions at a lower point. Gradually, however, this hope has been dissipated through the failure of one plan after another to stop the downward swing. Now it is rather widely realized that prosperity can be restored only by establishing a new equilibrium in the economic system.

The view we take today of the business situation depends primarily upon our opinion of how nearly this new equilibrium has been established. There is strong reason to believe that in certain broad fields all the necessary liquidation has taken place. For some months the business structure as a whole has given an indication that it has more or less completed its readjustment. To this there are of course notable exceptions, but the tenacity with which the principal business curves have held above their lows of the Summer of 1932 can be explained only on the basis that a large portion of this section of the American economic system has completed its housecleaning. In the security markets and in wages, too, it seems that most of the necessary deflation has been com-

pleted. This does not mean that security prices are going to continue at their present levels or that further wage readjustments are not needed; rather, it means simply that the superstructure of credit built on securities and the rigidity given to production costs by high wages have disappeared.

On the other side of the picture there are several extremely important branches of the economic system in which the liquidation has not been completed. Railroads are an outstanding example. Here, government credit has been used to prevent any real readjustment and the same thing is more or less true throughout a large portion of the financial system. Many of the banks have put themselves in good shape and today are well prepared to meet any demands that may be made upon them, but thousands of other institutions are still engaged in fictitious bookkeeping and show a state of solvency only because they have failed to write off their losses and because they are carrying their bonds at artificial values. A comparable artificiality is present in insurance. Real estate mortgages, both urban and rural, also are still faced with a difficult period of readjustment. Something has been done through foreclosures but, by and large, there is here still a large element of gambling on a return to the 1929 price level and an insistence that it is unnecessary to put through a revaluation similar to that carried out in general business. Finally, among those parts of the economic system which have not completed the necessary liquidation are governmental expenditures. The troubles of the Federal Government and a few of the more important cities in reducing expendi-

tures and balancing their budgets are well known. Many States and hundreds of municipalities are faced with the same difficulty, because on the whole almost nothing has been accomplished in deflating public expenditures.

If one adds to this list the numerous broader economic problems, such as war debts, the restoration of international trade through tariff reduction, the overhauling of tax systems, and the caring for the millions of unemployed, it is easy to regard the future as dark and gloomy. But such a point of view fails to place proper emphasis upon what has already been accomplished. The road before us of course is hard and tortuous; yet the fact remains that now for the first time we can begin to see its end. Today one may say with conviction that it is possible that the worst is over, though having said this, one must hasten to add that stupidity may drive us to still lower levels through introducing measures which, while giving temporary relief, will later lead to greater difficulties.

In the years immediately preceding 1929 a situation developed which no economic system could tolerate; the depression has simply meant correcting this condition. Long before the stock market crash in 1929 it was evident that there would have to be such a correction, but, because the duration of inflationary movements cannot be foretold, the question always remained as to when it would begin. The significant thing is that gradually over a period of years an economic burden was created which eventually was certain to become unbearable.

This burden, in general terms, arose from a confusion of productive capacity with productive efficiency. The distinction between the two is fundamental in the organization and operation of any economic system. Productive capacity refers only to the physical output; productive efficiency is the physical output combined with the

cost of manufacture or the price at which the product can be sold. The specific basic error before 1929 was to believe that a mere expansion of productive capacity alone was necessary to insure prosperity. That there must be a market for the additional output and that this market can be assured permanently only by keeping a workable equilibrium between different lines of production was overlooked.

When the situation is pictured in this way, it is evident that prosperity could not last. But why, if this is true, was the danger not apparent before 1929, and why were no corrective measures taken? The answer is simple. A growing lack of balance was hidden by providing artificial purchasing power through large extensions of credit. With this credit the public absorbed the additional output of productive equipment, and on the surface it appeared that equilibrium was being maintained. But if we are to understand the present depression it is important to distinguish between the artificial purchasing power used to take the surplus output before 1929 and real purchasing power. Every one recognizes that there is no such thing as general overproduction, and that the American public, in fact the whole world, is capable of consuming far more commodities than it did in 1929. We know that we have not reached the limit of human wants, and that, ability of consumers to buy goods being granted, the average standard of living will be raised substantially above anything yet known.

The crux of the matter lies in the provision of the purchasing power necessary to take a larger volume of commodities. There are only two ways of doing this. One is sound and permanent; the other can be only temporary and is certain ultimately to lead to trouble. The sound method is to increase the efficiency of each individual or productive unit. Then, with a given expenditure of energy, say one day's work, there will be more

to trade to other people for the things which they have. If the output of any one commodity does not exceed the desires of the rest of the public for this article at the price at which it is offered, there are no limits to this process of increased efficiency. As a matter of fact, exactly such an increase has made possible the rise in the standard of living during the last century. The only requisite for continued improvement through this process is the maintenance of the proper balance between the production of different commodities.

The second method of providing the public with purchasing power is through credit. Within certain limits this is perfectly safe, but it is possible to carry it so far that it undermines the entire economic system and forces extensive readjustments. This possibility is the result of the credit system we have developed. In current jargon, the extension of such unsound credit is inflation. For the present purpose this term and the indefinite meaning assigned to it in popular discussions are sufficient.

Inflation is roughly of two sorts. The first is that which is exercised for the purchase and consumption of goods. An excellent example of this was provided during the war when the Federal Government borrowed billions of dollars. The use of this purchasing power raised the wholesale price level to two and one-half times that of 1913. The second kind of inflation is that which is brought about for the expansion of capital equipment—the kind employed to an unusual degree in the years immediately before 1929. Through the ease with which funds could be obtained, because of the great speculative activity, industrial organizations expanded their productive capacity to unheard-of heights. At the same time vast sums of artificial purchasing power were extended both at home and abroad for the purchase of the greater output.

Both types of inflation created

debt; such a development, in fact, is the very essence of inflation. Gradually the debt burden became heavier and heavier, but as long as additional borrowing was possible the burden was bearable, just as Ponzi, some years ago, was able to pay enormous rates of interest to his investors as long as funds continued to flow in from new subscribers to his "get-rich-quick" offer. In time, however, points of strain developed and when these became sufficiently widespread the whole artificial superstructure of purchasing power collapsed. It started early in 1929, and became unmistakable with the stock market crash in the Fall of that year.

After the collapse was once well under way it was useless to try to stop it. The credit superstructure was nothing but a mass of debts. In effect everyone was giving promissory notes for goods bought, and accepting promissory notes for goods sold, or to put it another way, mere debt-vouchers were being used as the medium of exchange. As long as there was an ample supply of them and everyone was willing to accept them, it was a merry state, and "a good time was had by all." But presently, in the midst of the party, someone not only refused to accept any more of these playthings of prosperity but went still further and insisted that those that he already held should be paid in real money. The people from whom he thus demanded payment had nothing but other promissory notes. Therefore, in turn, they had to demand payment. And so the process has continued and must continue until the artificiality is eliminated and actual values are substituted for poker chips.

Expressed in more accurate terms, the liquidation must continue until an equilibrium is reached at which goods produced can be purchased without the aid of an ever-increasing debt burden—the fundamental condition under which goods and services are bought and paid for only with



other goods and services. Debts will continue to be incurred, of course, but these debts must be kept within reasonable limits. Specifically, this means that the increased productivity resulting from the creation of the debt must be sufficient to liquidate the obligations. Only on such a basis has any country ever been able to enjoy genuine prosperity.

Unfortunately those in responsible positions did not recognize this elementary truth of economic science. If they had, the country would have been saved untold suffering and today might be well on the road to better times. American financial and industrial leaders, and especially the Federal Government, could have been of genuine aid if they had realized the nature of the problem, but in that they failed. Instead of taking the position that it was their function to assure an orderly liquidation they have insisted that no liquidation was necessary. In blunt terms, this means that the "new era" economics of the 1929 prosperity has continued to plague the nation throughout the period of readjustment.

From the time of the stock market collapse through 1930 it was maintained that nothing serious had happened or would happen. The sudden downward trend was viewed as quite temporary. Business itself, according to those in authority, was "fundamentally sound." There was no occasion, therefore, for any curtailment in either private or business budgets because there would soon be a return to the old levels. On every side people were encouraged to spend money and make plans as before. This period of Couéism lasted until well into 1931.

But about the end of 1930 the public at large began to realize that something more than a temporary flurry was taking place in the business world. The conviction grew that self-hypnotism was of little aid if a man lost his job or if the bank in which his funds were deposited failed. Accordingly, a new "approach" to the

depression was sought. Thereupon the nation's leaders, instead of saying that nothing had happened, began to admit the existence of the depression and to devise "certain cures." But even this change was only on the surface; underlying belief in the "fundamental soundness" of the business and financial structure persisted, along with the expectation of a return to the 1929 level in the near future.

During this phase of the "new era" analysis of the depression, panaceas became the order of the day. The Hoover moratorium on inter-governmental debts in June, 1931, led off. In rapid succession during the next few months there followed the National Credit Corporation, the Reconstruction Finance Corporation and the Glass-Steagall act. The first of these was a cooperative scheme on the part of the banks for loans to those institutions which found themselves in difficulties. Its greatest contribution, however, was to provide a basis for ballyhoo at a time when public confidence was at a low ebb. The Reconstruction Finance Corporation, also, provided an admirable subject for ballyhoo, although it was more substantial than that. With the huge resources at its disposal and a willingness to lend to banks and railroads, it offers an effective method for the socialization of losses. The Glass-Steagall act, while advertised to the public as a means to meet foreign withdrawals of gold, was really for the purpose of enabling the Federal Reserve Banks to pump fantastic sums into the money market to force credit expansion.

The next legislative act widened the powers of the Reconstruction Finance Corporation, permitting it to make advances to practically anything as long as the project would give employment and was undertaken by a corporation rather than an individual. At the same time the building program of the Federal Government was enlarged and it was provided that States could borrow for poor relief.

The last of the great legislative

manifestations of "new era" economics was the passage of the Federal Home Loan Bank bill, which provided an assurance, so it was said, against the loss of homes through foreclosure. An important rider to this bill permitted the extension of the note-issuing powers of national banks through widening the list of United States bonds which might be used as a basis for issuing currency. Admittedly this was an inflationary device, but perhaps it served to ward off worse measures.

Outside Congress there was equal evidence of a continued acceptance of "new era" economics. The Federal Reserve System, for example, adopted an easy-money policy through the purchase of government bonds in the belief that this would force credit expansion and restore the price level more nearly to the old high. Its total purchases amounted to \$1,100,000,000 and this, according to views disseminated through the press, should have been sufficient to bring about a credit expansion of \$11,000,000,000. But the expansion never came to pass and today the Reserve Banks are faced with an embarrassing problem of what to do with their government bonds.

A special committee of business men also was appointed in each of the twelve Federal Reserve districts for the purpose of "making the large funds now being released by the Federal Reserve Banks useful affirmatively in developing business." They accomplished nothing important. Finally, the Commodities Finance Corporation should be mentioned. This organization proposed to make loans of exactly the type which thousands of banks had been searching for, but it got no business.

Both the Commodities Finance Corporation and the special committees were the dying gasps of the argument that deflation should not be permitted. The public, however, has lost faith in this idea. It still listens to talk of panaceas which promise to aid recovery, though without the old avidity. People hope for and believe in a return of prosperity; they are resigned to its being accomplished by normal economic processes. There still are special groups—and some of them are very powerful—pleading for "relief," but they are meeting with little success in obtaining the support of the rest of the public. The day of panaceas, of the sort which were familiar in the first three years of the depression, is definitely past. There is still a danger that some of the special groups will be successful in their pleading, but the country as a whole has turned its back on the old six, ten, and twelve point programs which were to bring back "new era" prosperity.

Such, in brief, is the American position as the country enters the fifth year of the depression. Whether there will be a slow gradual climb on a sound basis or a drop to still lower levels will depend to an unusual extent upon the leadership of the new administration in Washington. If it is wise it will study with care the record of the last four years. If it does, one great fact will stand out in clear relief—that the basis for optimism today is found almost entirely in those sections of the economic system which the government has not "saved" and, conversely, that the greatest cause for anxiety is now found in those fields of activity which have been the heaviest recipients of Federal aid.

# Technocracy Offers a Cure

By ALLEN RAYMOND

*Editorial Staff, New York Herald Tribune*

TECHNOCRACY is a word which apparently was coined in 1919 by William H. Smyth, an engineer and inventor, of Berkeley, Cal., as the name for a new system and philosophy of government. All but forgotten, the term cropped up a few months ago in discussions that arose from sensational stories told about the work of a scientific survey at Columbia University.

This survey, conducted by a group known as "Technocracy," was said to have shown that the United States was on the brink of a greater disaster than the current depression, namely, that the capitalist order, with its price system of carrying on business, was doomed inevitably, and almost immediately, because of the amazing growth of modern machine power. Together with the certainty of fast approaching chaos, it was first reported that the little group of scientists conducting the "Energy Survey of North America" were working out from the data and laws which they had discovered a new plan for society to which also the name "Technocracy" has been given. Under this new plan, the inordinately productive capacities of the modern machine would be used for the benefit of every one, but with all considerations of prices for commodities abandoned.

By charting the energy from steam, oil, gas and water power available for such a state, the natural resources at its command, and the declining importance of man-power in production, the scientists claimed to have discovered that a vastly higher standard of living for every one on the North

American Continent could be obtained with far less effort than is now expended. Poverty could be abolished. Insecurity could be wiped out. For a few days of work each week by persons between the ages of 21 and 45, under scientific management, every one in America could have a scale of consuming power measured at perhaps \$20,000 a year, according to the value of the 1929 dollar.

Dollars, as such, however, would have to be abandoned. No currency based on such an inexact measure of commodity values as gold or silver is any longer workable. The "Technocrats," as they have come to be called, envisage the distribution of "energy certificates," to take the place of money. These certificates are to be based on the amount of energy, in human labor or fuel consumption, required to produce any given commodity to be bought, from cigarettes to automobiles.

The Technocrats propose to balance production of goods with consumption by giving every one the right to consume, on an equal basis, without regard to the share in production which an individual consumer has earned. In this sense, the society which they propose to set up is seen to resemble a Communist or a Socialist order. But the Technocrats are careful to disavow any connection with Communist or Socialist philosophies. They scorn both of these methods of managing society as no more up-to-date than capitalism. Capitalism, communism, socialism or fascism, they hold, are all doomed shortly to oblivion, as relics of a way of living

based on man-power. The new order of life which they propose will differ from any the world has ever known, because it will be based on machine-power, or the consumption of energy by man and the machine.

This 13-year-old word, Technocracy, began to rumble through American society last August, shortly after the first accounts of the research work at Columbia had been published. The furore it has aroused is quite understandable. The new ideas came before the public at a time when the United States was suffering the greatest depression in its history. More millions of workers were unemployed than ever before. Displacement of men by the machine during the past decade had been so striking and the marvels of new automatic machinery so self-evident, that many persons were beginning to wonder whether new industries would ever again absorb the jobless workers.

Technocracy answered vehemently that workers never again would be absorbed by new industries, as they had been in the past, and that a new age of semi-permanent leisure for nearly every one was at hand. The task before the United States, Technocracy holds, is to develop a new economic system based on leisure and plenty for every one. The age of scarcity of consumable commodities, which has plagued mankind since the fall of Adam, has passed. We are asked to believe that the centuries which demanded labor and thrift as the price of survival in an unfriendly world are ended. The machine, says Technocracy, driven by billions of kilogram-calories of consumable energy, on a continent endowed by nature with every desirable resource, has brought the United States to the threshold of a civilization such as the world has never seen before and never will see hereafter on any other continent.

Apparently the first people to take an interest in what Technocracy was

saying were New York bankers, business leaders, speculators and others customarily referred to as "Wall Street." They wanted to know how much stock to take in the findings of the technocratic researchers. They wanted to know to what extent truths not generally recognized, but now being brought to light at Columbia University, were going to affect investments and commercial practices. At the same time a new personage, Howard Scott, the leader of Technocracy, its driving force, the chief intelligence working within it and director of the "Energy Survey of North America" at Columbia, began to be known to the public. He appeared on lecture platforms at universities and business men's clubs; he was entertained at country estates, and was sought out by many.

As public curiosity began to focus upon Scott and his associates, their studies and their theories, it was learned that Scott had been employed at one time in the engineering work at Muscle Shoals, that he had been for many years a student of economic theories and a debater in gatherings of the Greenwich Village intelligentsia. His associates, some years ago, included the late Thorstein Veblen, radical economist; the late Charles P. Steinmetz, engineer for the General Electric Company, and Stuart Chase, a popular writer on economic topics. This little group, corresponding and talking together, without any formal organization, had called itself "The Technical Alliance." Out of its abandoned discussions Technocracy has sprung within the last few years.

Associated with Scott in Technocracy are Frederick L. Ackerman, a New York architect, builder of several rich men's palaces and an authority on modern housing and town planning; Bassett Jones, a New York mechanical engineer; Professor Walter Rautenstrauch of the department of industrial engineering at Columbia University; M. King Hubbert, a



teacher of geophysics at the same institution, and Dal Hitchcock, an aide to Scott in publicity relations and in the conduct of the energy survey.

The energy survey has been in progress at Columbia since early in the Spring of 1932, with the financial backing of the Architects Emergency Relief Committee of New York City. This committee has provided Scott and Professor Rautenstrauch with the services of unemployed draftsmen and architects, who are enabled by the survey to obtain part-time employment. More recently the Gibson committee, New York's major agency for unemployment relief, has promised to give the energy survey the services of other men who are now jobless. Columbia University has supplied a large room in the engineering building for the work of the draftsmen and office space for Scott.

By the end of 1932 the energy survey had completed about fifty charts of basic industries; had about 300 in preparation, and had planned to chart 3,000 industries according to lines laid down by Scott.

Most of the charts being prepared by this survey deal with four things: the total production of the industry being surveyed, man-hours involved in that total production, measured against production units, total employment within the industry, and the consumption of energy within the industry. Other graphs, in some cases, deal with the measurement of units of production, as against the energy consumed in making them. Still other charts, which Technocracy is said to have prepared, deal with the rising amounts of capital indebtedness against industry as a whole and against particular businesses. Side by side with the energy survey, a considerable portion of the writings of the Technocrats deal with this growth of capital indebtedness, or overhead, upon which interest must be paid before the wheels of industry can turn profitably.

Briefly, Technocracy lays stress on three theses, which Howard Scott has been arguing for years, with few to listen: First, that wealth is a product of energy, human or mechanical, and that wealth can and should be measured in terms of energy units. Second, that the human element in the production of goods is, in this machine age, of steadily decreasing importance, so that a share in production can no longer justifiably measure human rights to consume the product of industry. Third, that our present price system has accumulated such a burden of debt that it is crushing society, preventing industry from working continuously at anything like capacity and preventing the public generally from consuming what people could easily obtain if the debt were invalidated and "energy" money substituted for the currency of gold and credit.

In connection with the first thesis, that energy is the foundation of all wealth, that it is the measure of wealth, and that the amount of energy procurable sets the limits for a standard of living in any society, Scott is said by his associates to have laid down the postulates for a "theory of energy determinants." This theory is a variation of the old Marxian idea of economic determinism, as applied to history.

Until the middle of the eighteenth century the number of man-hours required to cultivate an acre of ground, or to quarry a yard of stone, or to perform any other given piece of work remained about the same as in the earliest days of history. For over sixty centuries of recorded time the only engine whereby man's work was done was the human engine, or man himself. To be sure, there were a few tools which extended his powers, such as the wheel, the lever, the sail, and a few crude water-power engines and windmills, but in the main man's energy alone performed the work of the world.

Man's energy, like that of the machine, is derived from fuel consumption. An approximate total of all the energy used by society up to the middle of the eighteenth century would be somewhere between 1,000 and 2,000 kilogram-calories per capita daily. At this point Technocracy has entered the field of physical science, where for the layman its terms require definition. The kilogram-calorie is a measure of heat energy, and one kilogram-calorie of heat is the amount of heat required to raise the temperature of one kilogram (2.2 pounds) of water, one degree Centigrade. There are other units to measure work in the reasoning of Technocracy unknown to the man in the street, notably the erg and the joule. One joule is the amount of work required to lift a one-pound weight nine inches. One joule equals 10,000,000 ergs.

Since the amount of energy required to produce goods, the Technocrats say, is the only common measurement of all known commodities that would be scientifically accurate, the scientist must think of standards of living in terms of kilogram-calories of energy and ergs and joules of work accomplished. Dollars and cents, they contend, are not scientific measures for anything involved in the actual process of production and consumption by which mankind lives. With such ideas and definitions in mind, they turn to the capabilities of man as a human engine—or as a heat transversion unit—an energy-unit that burns food to obtain power for work. The human engine is limited in size from 150 to 200 pounds, and in total output to 1,500,000 foot-pounds of energy each eight-hour day. In other words, man is about equal to an engine of one-tenth of one horsepower that is capable of efficient operation about eight hours a day.

According to Frederick L. Ackerman, "the rate of doing work of the human engine laid down the limits of mechanical operation of any social

state possessing this type of engine alone. No change in the rate of work done in any social system was evident until after the advent of technology in the early nineteenth century. The introduction of other engines of energy conversion in the nineteenth century and the discovery of new materials and new energy resources in the last 100 years have brought about a change in the rate of getting work done impossible of envisagement by any social system founded on the human engine."

After 6,000 years of about the same rate of getting work done, man in the last 100 years has created power units—like turbines—capable of doing work 9,000,000 times as fast as a human engine could do it, and, according to Mr. Ackerman, the overwhelming proportion of that multiplication of human power has been within the last twenty-five years. The result of this vast increase in energy at man's disposal is thus described by the Technocrats:

"A shoemaker of ancient Rome took five and one-half days to make a pair of shoes. A workman in a modern shoe plant produces 67.8 pairs in the same time. Brickmakers for over 5,000 years never attained on the average more than 450 bricks per day per man, a day being over ten hours. A modern straight line, continuous brick plant can produce 400,000 bricks per day per man. The ancient miller of Athens or Rome ground out between his two crude milling stones a barrel to a barrel and a half of indifferent flour. A modern flour mill in Minneapolis or Buffalo produces 30,000 barrels a day per man, with a much shorter day and a better flour. In 1929 ore was mined on the Mesaba range at the rate of 20,000 tons per man per year, and in two weeks a greater tonnage was moved than that of the Khufu pyramid at Gizeh."

With examples like these the Tech-

nocrats point to machine-converted energy as the predominant factor in getting the world's work done, with man-hours of labor dwindling by comparison almost to the vanishing point.

This multiplication of energy applicable by man today to the production of goods is the central point of all Technocracy's thinking. It is the consideration of energy as the only real wealth in the modern world that has led it to declare that the financial wealth of the world is fictitious, and in truth the very reverse of wealth, since it acts upon industry as a debt claim which, theoretically, has to be paid, but actually never will be. The solution of all the social problems of our time, according to Howard Scott, lies in recognizing that energy is wealth, and is also the measure of wealth, in ergs, in joules, and in kilogram-calories. These units of measurement were the same yesterday as they are today, and will be the same tomorrow and always. The dollar, the pound, and the franc, however, were not the same yesterday as they are today, and will be still different standards of measurement tomorrow.

From considerations such as these, Technocracy moves on to its most startling conclusion—that the advance of technology in industry has already shattered the price system beyond repair. In its simplest terms, the price system is the method of distributing things people use according to standards of monetary value. The value of goods is customarily measured in terms of currency based on gold or silver or the credit of the government which vouches for it.

The representatives of Technocracy, however, take the position that the price system places consuming power in the hands of consumers only in exchange for the consumers' labor. But labor is less and less a factor in the production of goods. Most of the work that goes into the production of goods today is done by non-human energy,

and payment for this labor goes to the owners and managers of the machines by which the energy is converted.

The owners and managers of the machines are a very small proportion of the people. They obtain, under the price system, a consuming power which they cannot use. Instead of using it, they take the money which entitles them to consumption, and invest it in more machines, thereby creating still more claims to consumption which neither they nor their families nor their descendants can actually use. The result of this process is a continuous expansion of industrial plant which has already reached such a size, according to the Technocrats, that its product cannot be consumed under the price system. Consequently, we have in the world today what is called overproduction; the thinkers of Technocracy would label it, rather, under-consumption.

With overproduction or under-consumption, or a great surplus of every conceivable kind of commodity on sale at a price, the price inevitably falls until it becomes so low that it is no longer profitable for an industry to produce the goods. Production ceases. The employment of consumers is immediately curtailed. Consuming power dwindles still further. The depression becomes ruinous both to the great mass of the working and consuming public and to the small class of persons who have the machines in their charge because of capital claims rolled up against them. Leveling what they believe to be a scientific eye at this situation, the Technocrats concentrate their gaze upon the quantity of capital claims upon industry under the price system. The holders of these claims consider them wealth. Indeed, nearly every one would like to obtain more of these claims, in stocks, bonds, mortgages and other instrumentalities which are considered to be wealth. But in the view of Technocracy, these

claims are actually debt, not wealth. Wealth is well-being. Wealth is not the ownership of an automobile; wealth is riding in it. Wealth is not the ownership of a steak, but the eating thereof. Wealth, the Technocrats say, going back to their energy theories, is the consumption of energy.

The Technocrats examine the debt structure. They compare its size and growth with the size and growth of population and production and with the diminishing number of man-hours required to produce any commodity. Their conclusion as expressed by Bassett Jones is this: "The industrial debt of this country—bonds, mortgages, bank loans and all other interest-bearing amortized securities—totals about \$218,000,000,000. Taxes and obsolescence included, the fixed charge on this debt is \$34,000,000,000 a year—practically half the national income in 1928. Since 1840, this debt has risen as the fourth power of time. We owed sixteen times as much in 1930 as we owed in 1895. Note that population has been increasing as the square of the time. Therefore the ratio of debt to population increases as  $t^4$  to  $t^2$  or as  $t^2$ . In 1930, each one of us on the average owed four times as much as we owed in 1895. Note also that while debt increases as the fourth power of time, production increases only as the cube of time. It follows that the debt, which must be supported by the sale of produced goods, increases faster than these goods. In other words, the goods are 'put in hock' faster than they are produced. How long, and by what kind of financial legerdemain can such a proceeding be maintained?"

In Technocracy, it is customary to point out that the only way the capitalist order, under the price system, produces goods at all is to create a debt, or capital. Capital, for centuries, has been assumed to be tantamount to savings, and to imply such things as thrift, or self-denial in an age of scarcity so that one might have

a claim against the production of the future. In the discussions of Technocracy this view of capital is held to be erroneous today, however true it may have been at one time. Capital is more and more the surplus product of the machine, rather than of human labor, or is a matter of financial credits which have no reality in the processes of production. The production of capital claims by financiers, the Technocrats hold, is merely a means of controlling production, to make industry serve the special interests of the capitalists.

These economic theories of the Technocrats are admittedly not the result of data obtained from the "Energy Survey of North America" at Columbia. The energy survey is, rather, part of an effort to demonstrate their validity, and to show the public that the price system is unworkable under conditions of modern power production. The economic theories stem from numerous sources, largely through Howard Scott, who has been a prodigious reader and who has impressed his own ideas on the group which is following him. The Bible of the Technocrats, in which most of their ideas may be read, is a little book called *The Engineers and the Price System*, by the late Thorstein Veblen. Other ideas seem to have been taken from the works of F. H. Soddy, a British scientist and Nobel Prize winner, who has assailed the classical economists for their inexactitudes. Seven years ago, in a book entitled *Wealth, Virtual Wealth and Debt* (New York: E. P. Dutton & Co., \$3.50), Soddy stressed the necessity for quantitative measurement of economic phenomena, which is one of the cardinal principles of the Technocrats. He has set forth also the importance of energy, as the creator of all wealth. There are striking parallels in the words of Soddy in 1926 and the words of Scott in 1932.

"When we deal with the real factors that underlie the production of



wealth," Soddy wrote in 1926, "we can sum them up as discovery, natural energy, and human diligence. The first enters in the form of sudden and more or less spasmodic contributions which, once made, alter the whole course of history. But the two last must be continuously and unremittently provided as long as time shall last."

Scott, the leader of Technocracy, said in a recent magazine article: "The foundation on which our present-day world stands is built of three things: discovery, natural energy and, for want of a better term, watchfulness. Discoveries cannot be predicted, but we do know how completely they can alter the course of history. But the last two—watchfulness, or the mind that oversees and directs, and natural energy—must be supplied as long as man and his fellows are to dwell upon earth."

The work of Soddy is an obvious source for the ideas of the Technocrats. As to Veblen's *The Engineers and the Price System*, Scott has said the book was written by Veblen as a result of conversations with him. This work, published in 1919 as a series of articles in *The Dial*, is an exposition of the inability of business management to produce adequately for society under the price system. It is also an exhortation to engineers to lead labor in taking control of industry and in managing it for the good of all. The writer counsels the draw-

ing up of charts surveying employment and energy resources, and the use of the charts as propaganda for the education of the public.

Since the present discussion of Technocracy began, various critics have assailed the validity of figures cited by the Technocrats on the capacity of machine production and the machine's effect upon employment. The Technocrats have admitted minor inaccuracies in their charts, which, they say, are still in preparation. But they cling unyieldingly to their major theses, that machine power makes increasing unemployment inevitable and that the debt burden on industry can never be made good and will have to be written off.

Scott has indicated in conversation that he has definite ideas for an engineering plan whereby society may be run without any price system. Officially, however, the group has declared in recent statements that it has no plan for directing society, but is purely a research organization seeking the bases on which society may operate. In any case, by its predictions of increasing chaos if the price system is maintained, and promises of far higher standards of living for every one if it is abandoned, Technocracy has caught the nation's ear. The idea bids fair to become one of the outstanding fads of the depression era, but by provoking serious discussion it may perhaps stimulate suggestions regarding the way to real prosperity.

# Is Soviet Russia a Democracy?

By SIDNEY WEBB

[The following is the fourth of the series of articles on Soviet Russia which Sidney Webb, British Socialist leader and former Cabinet Minister, has written for *CURRENT HISTORY*. Another article will appear in the March issue.]

**U**NDERLYING all criticism of the Soviet Government, indeed, fundamental to American and British understanding of its achievements, is the question whether or not it is democratic. Here, once more, we are up against the nonconformity of the U. S. S. R. to our own categories of thought. It does not help toward any accurate appreciation of this novel kind of government merely to say that it is quite different from that of the United States or that of the British Commonwealth of Nations.

Communist thinkers in the U. S. S. R. promptly disclaim any likeness between the Constitution of their own State and those of countries in which, as they put it, "formal democracy" exists. Yet they seem to have the root of the matter in them. They would agree that it is desirable to insure that the affairs of any nation should be administered in accordance with the desires of the people of that nation. They would probably go further and accept the view that both public contentment and administrative efficiency are greatly promoted if the people feel that the laws have received popular assent. And if, going beyond mere machinery, it were asserted that the most important mark of a democratic community was that it was founded on and pervaded by the principle of equality, the Communists would at once accept the proposition. What demands the serious consideration of American and British students is that the Communists of

Soviet Russia unhesitatingly claim that on all or on any of these three grounds the U. S. S. R. is essentially a democratic community, and that it is, in fact, the most completely democratic of all the communities of any magnitude in the world of today.

We see, at once, that Soviet Russia has a different pattern of organization from that of the rest of the world. Instead of one representative system exercising all power, it has several parallel hierarchies having substantially a common form. Instead of the millions of citizens casting anonymous mass votes, in huge geographical constituencies, for the supreme legislature and executive, the citizens of the U. S. S. R. vote only in small groups of fellow-workers or village neighbors for one of themselves whom they know personally, and they delegate the rest of their power through indirect election. Instead of the principal positions being usually filled by rich men or by men closely allied to a wealthy class, the U. S. S. R. affords a picture of a vast community in which such personal wealth as exists plays no part either in the government or in the radio or the newspaper press, and exercises at elections no influence whatever, while every facility is provided for enabling men and women of the manual working class to take the part in government that their numerical preponderance warrants. If in Western Europe and America democracy is often hastily summed up as universal suffrage with a free press, in the U. S. S. R. it might equally be summed up as universal participation in public business in the midst of incessant oral discussion.

Let us examine from this standpoint the working constitution of the U. S. S. R. We must note, in the first place, that Soviet communism, while enormously enlarging the sphere and function of collective control, avoids the mistake of confusing the electors by mixture of issues. What exactly did the electors of the United States mean by their vote in the last Presidential election? In Soviet Russia the electors vote separately in different groups and at different dates in their fundamentally different capacities. For the election of the city council (soviet) the great mass of electors vote at their several places of work, along with their fellow-workers of all grades in the particular establishment. In the villages they vote along with their near neighbors, who have usually the same occupation. But the seventy-odd millions of registered electors for the soviets are consumers as well as active citizens; and it is in their capacity as consumers that the 72,000,000 shareholding members enrolled in the 45,764 separate co-operative societies (on Jan. 1, 1932) elect their quite distinct managing committees and exercise their control over the distribution of three-fourths of all their household supplies.

And there is yet another differentiation. These millions of citizens and consumers between the Baltic and the Pacific are, if able-bodied adults, with insignificant exceptions, also active producers, in industry or agriculture (including also administration, communication and transport, banking, social welfare institutions and all cultural activities). Such of them as are wage or salary earners are organized in forty-six huge trade unions, having a co-equal share in the government (or control of the social environment). These members vote in a separate system, which is essentially similar in pattern to that of the soviets and cooperatives. Every trade-union member votes along with his fellow-workers for the shop or factory committee of the establishment

(whether factory, mine, ship, hospital, university or institute) in which he or she works. Those producers who are not paid by wage or salary and who themselves own the instruments of production are separately organized in associations of producers, either in industry (the tens of thousands of *kustar* artels) or in agriculture on the 230,000 collective farms (*kolkos*). These similarly meet in their own small groups of fellow-workers and elect their own local committees, through which they exercise their share in the collective control of their own industry throughout the U. S. S. R.

This multiplication of elections, with its separation of issues into (1) common citizenship, (2) distribution of household supplies and (3) wealth production (whether by wage or salary earners or by owner-workers), affords, it is claimed, a more genuinely effective way of enabling the millions of adults to express their desires and even exercise the control of public opinion than the general elections of the British House of Commons or the Presidential elections in the United States. It is claimed that in the U. S. S. R. a much greater number and also a larger proportion of persons actually vote and vote more frequently than in any other country.

Nor does the citizen's participation end, as it so often does in other countries, with the giving of his vote. All the elected representatives in the U. S. S. R., whether in soviet, cooperative, trade union, *kustar* artel or collective farm, habitually appear before their electors in open meeting every few weeks throughout their term of office to give an explanatory account of the business in which they have been occupied, to answer all questions addressed to them and to hear the complaints on all sorts of subjects that their electors freely express. Thus, in literally hundreds of thousands of small public meetings, there goes on, from the Baltic to the Pacific, an almost ceaseless discussion of public af-

fairs, to which there is in other countries no parallel. And everywhere and at all times the electors have the power summarily to recall the person whom they have elected and to substitute some one else in his place. Whether or not such an electoral system, as innocent of vote by ballot as England and America were a couple of generations ago, is admitted to be democratic, the political student must at least note the numerical extent of the participation in public business and the extraordinarily valuable political education in all branches of the control of the social environment that is thus afforded to those who are alike citizens, consumers and producers.

Based on these hundreds of thousands of separate electoral meetings, which are reported to be very numerous attended and not infrequently so full of discussion as to require adjournment to a subsequent day, all the rest of the complicated political structure of these 160,000,000 people uses the expedient of indirect election. The city and village councils, the cooperative and trade union committees and those of the industrial and agricultural associations of producers, in addition to administering their several local affairs, all have the important function of electing representatives to sit on a council for the district (which we may think of as a county). This council under various names manages the affairs of the district and also elects delegates to a provincial council or conference. And so the various hierarchies rise, parallel with and substantially similar to each other, up to a congress in each case representing its particular set of members throughout the whole U. S. S. R. That of the soviets not only elects the invariable executive committee, presidium, president and secretary, common to all Russian councils, but also appoints the People's Commissars (Ministers of State), who form a Cabinet (Sovnarkom), in administration superior to every other author-

ity in the land. Between the several congresses or their central executive committees or officials representing respectively the soviets, the cooperatives, the trade unions and the associations of producers, there are, it is needless to say, frequent consultations and discussions at every stage.

It must be noted that at no stage in the hierarchy and in no grade does the Soviet Constitution employ the method of popular election for the selection or appointment of any officer, whether president or secretary, magistrate or manager, clerk or manual worker. Even more universally than in Great Britain the selection and appointment of officials, high or low, in Soviet Russia is invariably left to the executive committee and usually, indeed, to the smaller presidium. In establishments of any kind, whether institutes or factories, the selection of all subordinates is usually delegated to the director or manager.

The modern liberal or radical, and usually the modern Socialist, does not like indirect election, which seems to weaken the control of the mass of the citizens. English experience of the past couple of centuries is considered to be on the whole against it. But when we come to such vast aggregates as hundreds of millions, it is hard for even the most determined democrat to resist a doubt of the genuine efficacy of direct election of any central authority. When we add the influence of millionaire employers in joint stock enterprise, a wealthy capitalist press and radio, and all the power of the political administration, democracy in the old sense is apt to become a farce. It is not easy to dispute the claim that the electoral system of Soviet Russia, however we may designate it, more accurately expresses the people's will than those of the United States, Great Britain or the German Reich.

But, it will be said, the various hierarchies of soviets, trade unions, consumers' cooperative societies and associations of producers, though the os-



tensible, are not the real government of the U. S. S. R., which has been assumed without popular mandate by the Communist party. This extraordinary companionship, reminiscent of the religious orders of the Roman Catholic Church or of the officer-corps of the Salvation Army, does not as an organization exercise any legal power. It does not appoint the People's Commissars or Cabinet and not even the head of the political police (Ogpu) nor yet the judges and magistrates and all the innumerable holders of salaried administrative posts. The Soviet Communists dislike the use of any terms reminiscent of theology, and they will accept, as a significant description of the Communist party, only that of Keeper of the Nation's Conscience. It is, in fact, almost exactly what Auguste Comte designated a century ago as the spiritual power in the State, pointing out always what ought to be done, in big things and small, but not itself exercising any but the authority of persuasion.

The careful student of the U. S. S. R. today will have no doubt as to the commanding position which the membership of this highly selected, strictly disciplined and very exclusive companionship, quite misleadingly described as a political party in the American or West European sense, holds in the community. But they are not a separate class or political party. A substantial majority of the 2,000,000 members and candidates are still wage-earning manual workers at the bench or in the mine, where they are almost invariably the popular leaders, who are trusted and followed by their fellow-workers. Most of the remainder fill the full-time offices of local or central administration, including those of the trade union and cooperative hierarchies. Selected as they are in the main for their personal qualities of leadership and ability, they naturally hold nearly all the key positions in administration and industry. Wherever they are they have to give im-

plicit obedience to the directions of the Central Executive Committee and principal officers of their own organization.

Hence it is that "Comrade Stalin," who is merely the General Secretary of the Communist party, has a position and an influence which is universally regarded as that of a dictator. This, however, is true only in a modified sense. His orders are not law to the 160,000,000 of the population and are binding only on the 2,000,000 members of his own organization. They are not enforced by the police or the law courts. The Commissars (Ministers) and their principal officials (being in most cases, though not invariably members) must seek to carry them out, but they can do so only by persuading those actually concerned to put them in execution. Nor are the decisions of "Comrade Stalin" his own autocratic commands. He is not that sort of man. Confidential reports indicate that what goes on within the Kremlin is rather in the nature of a perpetual series of little committees over which Stalin does not usually preside. He is reported to be extraordinarily skillful in influencing, by deft questions and persuasive interjections, the conclusions at which the committees arrive. But he displays also an almost uncanny capacity for absorbing and assimilating what he learns from everybody's reports both as to the actual facts and as to public opinion. On this composite basis are grounded the periodical deliverances which are issued in his name, sometimes standing alone and sometimes coupled with that of the President of the U. S. S. R.

We may perhaps sum up the Constitution of the U. S. S. R. by emphasizing its reliance on the widest possible participation of the whole adult population in the public business, which includes the planned control of the whole social environment, but with direct popular election only at the bottom of each of the hierarchies. Power does actually emanate from the peo-

ple, as Lenin insisted—"All power to the soviets." But the power is transmitted up each of the hierarchies by the cable of indirect election, delivering some of its energy at each of the stages. At the top of each hierarchy the power is transformed into authority couched in specific orders determining how the collective control in all its forms shall be exercised. Emphatically, in the U. S. S. R., authority comes from above, as, in fact, it does in the government of every populous State. Perhaps we may say that the U. S. S. R. expresses more explicitly than other nations the necessarily authoritative character of the great modern State, however democratic it may think itself. The Soviet organization is certainly poles asunder, like the modern State itself, from the New England town meeting, or the old English vestry, where the taxpaying inhabitants themselves in open meeting made the laws, appointed each other to be unpaid hog-reeve or constable and even executed rough justice on any erring citizen.

But the U. S. S. R. cannot be fairly judged without taking into account the extraordinary development of an additional apparatus that Auguste Comte predicted would have to be created in every civilized State, namely, a distinct spiritual power charged with constantly pressing on the actual government, but only by way of persuasion, the fundamental purpose of the community, now picturesquely described as the dictates of its conscience. Perhaps Auguste Comte, if he had cared to use the language of democratic theory, would have said that only by means of a spiritual power, apart from but influential with the legislative and executive authorities, could the community continuously express its general will and at the same time insure this being carried into effect in the face of the inevitable personal and sectional interests.

It is useless, however, to discuss

whether or not the Constitution of the U. S. S. R. is what we choose to consider and to designate democratic. It is more important to realize exactly how it works—to what extent it provides a control of the social environment according to the wishes of the people as a whole; how far the legislation and administration enjoy the advantage of a popular consciousness of consent; and how nearly the resultant State approaches to the best kind of equality for the entire population. On this supreme judgment people in other countries will long continue to differ according to their bias and their information. All that need be said here is that great difficulty will be found in convincing any thoughtful Soviet citizen, whether or not he is a Communist party member, that the Constitutions of the United States, Great Britain, France or Germany come nearer than that of the U. S. S. R. to securing what is usually meant by democracy, whether emphasis is laid on social equality or on the fulfillment of the popular desires or even on the general consciousness of consent to the actions of government.

At this point there comes into view the full significance of the difference in the sphere of collective organization as seen in the U. S. S. R. on the one hand and in the rest of the civilized world on the other. This is not a difference in national purpose. What the fathers of the United States Constitution aimed at was also the object of Lenin's lifelong devotion—to use the American phrase—to secure the equal rights of all men to life, liberty and the pursuit of happiness. Jefferson thought that this would be attained if we cleared away monarchy and all hampering legal restrictions on individual effort, merely maintaining courts of justice and a police force. The British Radicals of a hundred years ago (though Jeremy Bentham knew better) generally agreed with this view. Later generations on both sides of the Atlantic rationalized and moralized this minimizing of politics,

until it became an article of faith that "self-love and social are the same," that if every man was left to pursue his own interest in the way he thought best the interests of all men would be automatically secured, or, at least, that there was no known practicable alternative to the policy of letting each man do what he liked with his own.

But this was before the industrial revolution had transformed three-fourths of the people into propertyless wage earners and before it had unwittingly given to a small minority of capitalists what it is not unfair to describe as an economic dictatorship, and one that Jefferson would perhaps have been the first to resent. Today it seems only a mockery to pretend that the Constitution of the United States or that of Great Britain secures to every man equal rights to life, liberty and the pursuit of happiness. Soviet Russia believes that it has presented the world with a practicable alternative, which comes much nearer to the attainment of the Jeffersonian object.

We shall understand this paradoxical claim better if we recall the nature of the compulsion and coercion against which the mass of the citizens of every great industrial State are now seeking protection. What is it that condemns the great majority of all the inhabitants of great nations to grow up in penury, and many of them in chronic want; what makes the incomes of the mass of wage earners actually insufficient for completely healthy maintenance and full training of their families; what forces those who do the most laborious work to live in the most unhealthy surroundings, under the most insanitary conditions, with a death rate and a sickness rate that we now know to be relatively excessive and totally unnecessary; what deprives nearly all of them of leisure and holidays, traveling and culture; finally, what exposes most of them periodically to involuntary unemployment and famine and dooms

many in old age to pauperism? Our grandfathers might have said original sin. Our fathers complacently ascribed all these ills, even when they were seen to be social diseases, to the personal shortcomings of the poor.

The conscience of the Soviet Union, in full accord with modern science, puts these social diseases down, at any rate in great measure, together with nearly all the resultant inequalities of fortune, to the nature of the economic environment into which the people are born and amid which they must inevitably grow up. It is not monarchy or a State church or chattel slavery that causes at least one-fourth of all the workers in the United States and Great Britain to obtain even in good times a wage demonstrably inadequate to full healthy maintenance. It is not lack of resources in a country abounding in every necessity of life. It is not even the cruelty or other wickedness of the dominant class which is as uneducated as the victims of the oppression that hardly any of them understand. It is the environment itself that deprives the vast majority of the people of every country deeming itself civilized of effective liberty and of anything like equal opportunity of pursuing happiness. And the sharp points and painful pressure of that environment are supplied, so it is argued, by the profit-making motive embodied in the private ownership of all the instruments of production.

Accordingly what the U. S. S. R. seeks to do—what Jefferson never thought of and what the capitalist nations have never attempted—is deliberately and continuously to shape the whole economic and social environment of the population in such a way as genuinely to secure to every person in the land, so far as may be found practicable, both equality of opportunity and the widest possible expansion of individuality. This is in Soviet Russia the object and meaning of the General Plan which forms the central core of all politics. It is significant

that its formulation starts each year with the bare statistics of the population in each locality and for the whole U. S. S. R. So many adult able-bodied workers in health to be found opportunities for production (no other State approaches its problems from this starting point); so many children and young people to be insured education and technical training; so many sick and infirm to be cured or relieved; so many aged and superannuated to be provided for. It is solely to attain the desired standard of life for all the people that the whole scheme is planned, without the least concern for anyone's private profit—all the industrialization and electrification, the extraordinary mechanization of agriculture, the insistent rationalizing of international trade, the audacious redistribution of all kinds of production according to local opportunities so as to lessen the expense of transportation; the relatively colossal expenditure on education, book publication, newspaper production, concerts and the drama, the opera and the ballet.

The question that the foreign inquirer, usually a person with an assured income from investments, is apt to ask is, "Does not such a comprehensive planning of the entire social environment involve a lessening of individual liberty?" The answer that would be given to him is, "Frankly, yes, so far as the relatively small number of actual or potential property owners are concerned." No able-bodied man or woman can live comfortably in the U. S. S. R. without doing his share of socially useful work by hand or by brain, even if he

is a property owner. No one is free to engage in business for his own individual profit, if this involves the employment of wage-labor.

But, on the other hand, the whole of the people of the U. S. S. R. find, so it is claimed, that the all-pervading pressure of the social environment, which formerly deprived them of all effective liberty (or opportunity) to live a full life, is now so shaped and controlled as to afford every one of them a great deal more individual freedom of choice of occupation and residence than was ever possessed before; much more leisure, both daily and in holidays; a steadily rising share in the aggregate of consumable goods that are produced; a greatly enlarged avenue of promotion to duties of greater responsibility and emoluments; extended educational facilities for the children as well as for the man and his wife; the security afforded by the network of social insurance; and the opportunity of actively participating, according to one's abilities, in the actual government of the community.

Whether the citizen of the Western World thinks that all this does or does not amount to a positive increase of individual liberty—brought about by the deliberate control and planning of the social environment—will probably depend on whether he thinks that it is more important to the world that property owners should be free to indulge in their caprices or that the four-fifths who are not property owners should find their own individual opportunities of choice and initiative enlarged.



# The Strength of German Capitalism

By CALVIN B. HOOVER

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GERMANY is the heart of industrial, capitalistic and bourgeois Europe. Only Poland and the Baltic States, the marches of capitalistic Europe, insulate Germany from physical contact with Soviet Russia. The threat of the renunciation of capitalism and the embracing of bolshevism has been, ever since Versailles, the final desperate argument which Germany has offered in support of her plea for the amelioration of the terms of the peace treaty. Since 1930 the advance of National Socialism, the self-proclaimed defender of the Fatherland from communism, has been accelerated, though to the rest of the world it seemed hardly preferable as an alternative. While the world economic crisis deepened and while the misery of Germany steadily mounted, the success of the Hitler movement seemed so probable that the only question to be discussed appeared to be whether the National Socialists, when they came to power, could construct a stable economic and social system which would serve to prevent the establishment of a soviet system in Germany.

Since the events of the Summer of 1932 the outlook has materially altered. In June Hitler made the perhaps fatal mistake of allowing the von Papen Government to take over the power of the State. Hitler had expected that von Papen would form only an ad interim government which would

insure the peaceful transfer of the State power to himself. As all the world knows, Hitler was disappointed in this expectation. Events proved that he had allowed himself to be deluded and outmanoeuvred by the conservative elements in Germany. He failed to obtain a majority in the July elections, and the movement suffered further losses in the November elections. The new situation raises once more the question of the status of capitalism in Germany.

Did the decision of the conservative elements to prevent Hitler's coming to power mean that the safety of capitalism in Germany against any threat of communism had been assured? Or did it mean that the conservatives, simply on account of their distaste for Hitler, had recklessly burned their bridges behind them and had thus cut themselves off from a Fascist island of retreat which the National Socialist movement offered to capitalism? Do the great industrialists of Germany have any plan for the reorganization of capitalism or are they only waiting in the hope that somehow or other normal business conditions will be restored? Finally, there is the question of the attitude of the mass of the German population toward capitalism. Are the people willing to wait for the return of "normal times" or is there a deep-seated hostility to capitalism and a conviction that capitalism has failed and must be replaced by some other system?

A simple and categorical answer to these questions cannot, of course, be given. It is possible, nevertheless, to distinguish certain trends with reasonable clarity. In the first place, it may be definitely stated that the in-

dustrialists, bankers and business men of Germany have rejected National Socialism as a substitute for capitalism. It might be more exact to say that the majority probably never even considered accepting it as such. It is quite certain that only a small minority of German "big business" ever actively supported National Socialism. Only during the last year, on the other hand, has an active and determined opposition to the Nazi movement developed from this quarter. For some years many industrialists viewed the growth of National Socialism with complacency since they regarded the movement as essentially nationalist rather than Socialist. Furthermore, it fought the Communists and weakened the trade unions. The innate hostility of the movement to big business was discounted because there seemed little probability that this hostility would ever be expressed in any more practical form than in the pamphlets of the Nazis. On the other hand, the undoubted service which the Hitler movement was performing in strengthening Germany in her stand against the payment of reparations was recognized.

As the Nazi movement attempted to expand its membership and to win a majority of the electorate to itself, it became necessary to emphasize the economic side of the Nazi program. Only by so doing could the Nazis hope to win the support of the peasantry; still less was it possible to win proletarian support in any other way. As the economic situation became worse the stressing of "anti-big-business" slogans became an ever more essential part of their propaganda.

In the Summer of 1932 the industrialists were confronted by the possibility of a National Socialist government. The prospect filled them with deepest alarm. The bitterness of the anti-Semitic feeling among the Nazis was one cause of this apprehension. The prospect of international conflict which might follow upon the carrying out of the Nazi foreign policy was a

further cause for worry. Most important of all was the fact that the movement had already moved markedly to the left. No one knew exactly what the economic program of the Nazis would mean in practice, but it had at least become apparent that a wholly Nazi government could be counted upon to perform some very serious exploratory operations upon the still living body of German capitalism.

If, however, the industrialists decided to block the path of Hitler to power and succeeded in so doing, the movement would either be materially weakened or would be pushed still further to the left. The prospect of the National Socialists becoming, in effect, National Communists was a source of concern to the conservative forces in Germany. The conservatives disliked the necessity of making a decision which definitely aligned them against the Nazis and which meant that the continuance of the use of the Hitler movement as a specific against the growth of communism became uncertain.

If the downward movement in world economic conditions had continued at an uninterrupted pace it is to be doubted whether the conservative elements in Germany would have dared to take the decisive measures which they did finally take in August against Hitler's march to power. By that time, however, there could be observed the first signs of an economic upturn in the United States. The economic situation in Great Britain was also showing some signs of improvement. German industrialists decided that this foreshadowed the turn of the cycle for Germany as well. If economic conditions improved sufficiently, there was no longer any important use to be served by the National Socialist movement. If the movement were allowed to come into control of the State, it might not only prevent Germany from sharing in the hoped-for economic upswing but might even nip in the bud

the tender sprout of international economic confidence and thus destroy all hope of recovery.

So the decision fell. In passing, one cannot withhold a certain admiration for the tough old Junkers who had the courage and coolness required to undertake what then appeared to be the formidable task of throwing a barricade across the path of Hitler's onswEEP. They were, however, to be disappointed in the reward which they had hoped to receive for their service to the conservative cause. They hoped to turn back the calendar to 1913, but their confederates, the industrialists, were realists. The Junkers could, indeed, control the Reichswehr, but the November elections showed that they could count upon the support of only some ten per cent of the German people. The industrialists were not ready to stake much in support of a movement which could command no greater force than this. The mystic and romantic schemes of von Papen and von Gayl for constitutional reform were received with the greatest skepticism by the industrialists. "As a statesman von Papen is a very brave cavalry officer," said a leading industrialist to the writer. "You can be sure that he will not long be German Chancellor." This prediction was verified almost at once when the von Papen Cabinet fell and the von Schleicher Cabinet, in which the Junker influence was greatly diminished, came to power.

The refusal of German capitalists to accept National Socialism does not mean that they adhere strongly to the doctrines of laissez-faire capitalism. The German capitalist, like his American brother, believes firmly in the desirability of suppressing "undesirable forms of competition" through the organization of trusts, cartels and other forms of large scale capitalistic organization. When in financial difficulties, industries look for and receive subventions and guarantees from the government. German indus-

trialists, however, are not greatly concerned about these large investments of capital in industry by the State. No doubt the majority hope that the government will be able to withdraw from these engagements when business conditions have improved. Others are able to contemplate with equanimity the possible further expansion of State participation in industry.

"It would make little difference to a typical *Herr Direktor*," says one of these German industrial leaders, "whether he were manager of one of our great banks or industries in which the capital is only partly furnished by the State or whether all the capital in the industry of which he was the manager was State-owned. It would, indeed, make a tremendous difference to the *Herr Direktor* if the industry were controlled by a Communist government. If it were controlled by the same classes which control it now the *Herr Direktor* would avoid many of the uncertainties of privately owned enterprises while he would enjoy almost the same perquisites."

This observation on the part of the industrialist was the more interesting because only the day before a labor union leader had expressed his confidence that socialism would come about eventually in just this way. The significant difference, however, was that the labor leader had assumed that the State which owned industry would be a State controlled by workers primarily in the interests of workers, while the industrialist had stipulated that such a form of State ownership of industry would be successful only if the same classes which furnish the directors of corporations at the present time would control the government then.

It may be concluded, then, that the industrialists, bankers, and other business men not only do not have any idea of reorganizing capitalism but they do not even have any effective desire to plot the course of the future development of capitalism in Ger-

many. They do not contemplate the development of any system of "planned economy." They have no use for the *Autarkie* of the National Socialists. They only desire to protect their present control over industry and to bring about, if they can, a return of business conditions which will enable them to operate their enterprises at a profit.

In sharp contrast to this attitude of the conservative elements in Germany is the bitter hostility of the mass of the population toward capitalism. It is unnecessary to dilate upon the economic misery of the German people. Deep as this misery is, we have our own misery in the United States, which in some respects, at least, is almost as great. The registered unemployed in Germany at the end of November numbered about 5,350,000 persons. It is officially recognized that there are from 1,500,000 to 2,000,000 unregistered unemployed in addition to those registered.

One may conclude, therefore, that the ratio of unemployed persons to the total population is somewhat greater than in the United States, but not markedly so. It is true that the burden of unemployment has had to be carried longer than in the United States and that the material resources available for the task are relatively much smaller in Germany. Moreover, the wages of employed workers are, of course, much lower in Germany than in the United States. These circumstances are partially offset by the fact that the funds which are expended for unemployment relief, while miserably inadequate, are used with very much greater efficiency than are such funds in the United States. It must be admitted also that, judged by rational standards, the German worker maintains a higher standard of living, per dollar received, than does the American worker.

Although the long continuance of unemployment has naturally found expression in an increasing bitterness among German workers, there has

developed also a hopeless apathy which certainly reflects a decline in the morale of the working population, but which does not in itself threaten the capitalistic system with revolutionary violence. This weakening of morale is evidenced by the extent to which the streets are infested with beggars—one of the most notable changes from the Germany of other days.

The economic condition of the peasantry is very bad, but it is doubtful whether there has been relatively as great a decline in living standards as there has been among American farmers. In certain districts of Germany the absolute misery is undoubtedly much greater, however, and the barest minimum of subsistence is approached. Unlike the workers of the cities, who divide their allegiance between the Social Democratic party and the Communist party, the peasants express their resentment by voting Nazi.

The impoverished bourgeoisie and declassed aristocrats who have swelled the ranks of the Nazis express a radicalism which no doubt would dwindle materially with a decisive turn of the business cycle. Every year that the depression continues, however, renders their proletarianization more permanent. The radicalism of the students finds an objective basis in the constantly increasing difficulty of graduates in finding employment in their professions. This basic cause for discontent already existed before the present depression, but the difficulty has been greatly accentuated during the last three years. Engineers, doctors and others of the professional classes often sympathize with the radical parties for similar reasons.

Dissatisfaction with the present economic system is reflected by the distribution of the vote at the Reichstag elections in November. The avowedly Socialist parties—the Communists, Social Democrats and National Socialists—received seventy



per cent of the total popular vote. This does not indicate by any means that socialism is imminent in Germany, since the Socialist parties are so hostile to one another, but it is a measure of the emotional reaction of the people toward present conditions.

The Communist party increased its vote about 20 per cent. It also became the largest party in Berlin. This gain was achieved in spite of the surprising degree of success which the Nazis had in holding their proletarian members in Berlin in line. The Hitlerite loss for the whole of Germany, after allowing for the diminution in the total vote cast as compared with the July elections, was only about 11 per cent. The Nazi loss to the Communists was relatively small. The greater part of the voters within the Nazi movement who regarded it as essentially nationalistic rather than socialistic went over to the Hugenberg Nationalists who were supporting von Papen. It was natural that this should be so since his government offered everything for which a nationalist could possibly hope. Since the National Socialist movement owes its mass strength to economic discontent and since the causes for this discontent have not essentially been altered, the movement still contained one-third of the German voters even after the loss of its ultra-nationalist members.

As long as the National Socialist party exists in its present strength it is a disturbing factor to German business. The industrialists consequently are making every effort to bring about the disintegration of the movement. To this end they have favored Nazi participation in the government but with guarantees against carrying any of their economic ideas into execution. It is believed that the consequent disappointment of the radical membership of the Nazis would greatly weaken the party. An alternative hope has been that disgruntled Nazi leaders could be induced to accept Ministerial posts and that the party

would be split in this way. The heterogeneous constituency of the movement and its lack of a definite program facilitates the operation of the forces of disintegration. The conservatives leave to the future the problem of where the voters will go after the National Socialist movement has broken up.

It is significant that the transit system strike in Berlin during November was led by the Communists and Nazis against the opposition of the regular trade unions. This was one of the "wild" strikes which were brought about by the attempt of the von Papen government to lower wages and which produced several instances of Nazi-Communist cooperation. The von Schleicher government which succeeded von Papen's definitely abandoned this policy because of its complete failure.

In spite of the bitter discontent of a large part of the population the opposition to the present social order remains indecisive. Although the movement of the Nazis to the left and the incidents of Nazi-Communist cooperation cause some disquiet, a wide gulf still separates the disciples of Hitler from those of Lenin. In the disunion of radicalism lies the strength of capitalism in Germany.

Paradoxically enough the very length of time during which the present difficulties have persisted has finally served to increase the confidence of capitalists that their system will certainly survive. Before the present crisis and depression many of them would perhaps have doubted whether the system could endure the economic disasters which have befallen it without social upheavals on a corresponding scale. That such social upheavals have not occurred is some measure both of the strength of the economic and social structure of capitalism and of the weakness of systems which are offered as substitutes for it.

Much of the discontent with capitalism of necessity expresses itself

simply in a feeling of hopelessness since no effective alternative presents itself. The Social Democratic party's policy of waiting for the gradual evolution of socialism makes little appeal to the man who is hungry now. The economic program of the National Socialists suffers from a lack of unity and an almost hopeless confusion of ideas. The Communist party which does have a definite philosophy and program is just now terribly handicapped in the effectiveness of its propaganda by the failure of the Soviet Government to cope with the problem of feeding the Russian population.

As long as control of the Reichswehr remains in strong hands there is almost no possibility in Germany of a Nazi attempt to seize the State power by force. Only in the event of a complete economic and political collapse could the Communists hope to seize power. By contrast, the industrialists, who are in effect the rulers of Germany, express a vigorous confidence in their ability to control any situation which is liable to arise. One industrialist expressed this spirit when he said: "We are annoyed by the nuisance which the Nazis are causing us just now, but we are not at all frightened by them." German business men have become used to crises, both political and economic. They have acquired skill in getting along with and making use of any party or group of parties which happens to be in power at the

moment. If they cannot have the Cabinet they wish, nevertheless they usually manage effectually to safeguard their interests with the Cabinet that does come into existence. Their experience with the German revolution of 1918 convinced them that even revolutions can be managed.

The immediate political situation has been eased by the formation of the von Schleicher government. The extraordinary character and tremendous prestige of President von Hindenburg remain a factor of first importance in maintaining political stability. Conservatives, in view of the President's advanced age, hope strongly that the general, if still faint, signs of improvement in economic activity in Germany presage an early and decisive turn for the better. They realize, however, that economic improvement in Germany is dependent upon factors which are largely international in character, such as the war debts, reparations and tariffs. The post-war history of Germany shows that radical movements have waxed and waned with the ups and downs of the business cycle. German business men are confident that history will repeat itself. Their economic and political policy is predicated upon this assumption. If the hoped for international economic recovery should be too long delayed the consequences would be serious indeed. This, however, is not exclusively a German problem.

BERLIN, December, 1932.

# Agrarian Conflict in Hungary

By LUDWIG LORE

[Formerly editor of the *New Yorker Volkszeitung*, Mr. Lore is now specializing as a writer on European affairs.]

HUNGARY is in one respect a land of contradiction—a kingdom without a king, though for the time being at least the place of the missing monarch is being filled by the Regent, Admiral Horthy, a great landowner from Kenderes, who, on behalf of the landed gentry, the counts and barons of the Hungarian aristocracy, the real masters of the country, is presiding over the nation's destinies. When a soviet government was established on March 21, 1919, it seemed as if the proletarian dictatorship had put an end to their feudal glory. But Rumanian troops, forgetting the bitter hatreds of the World War, went to the aid of the Hungarian aristocrats against an enemy within, and helped to bring the soviet régime to an end after a few months of troubled existence. A national government was again in power in Budapest on Aug. 7, 1919, and then followed a period of white terror. Revolutionary suspects were seized by the hundred; many were put to death or subjected to fearful tortures; others who were arrested at the time still fill the jails of Hungary.

The Hungarian aristocrat is known the world over for his social charm, for the delightful manner in which he plays the part of host, for his eagerness to serve a friend. He is a cosmopolitan to the core, a broad-minded elegant toward those who associate with him on his own social plane, whom he recognizes as his equals and treats accordingly. In his relations with the less fortunate, this veneer of fine manners disappears and the tra-

dition of overbearing pride comes uppermost. He bears an obvious spiritual resemblance to his cousin, the Junker of East Prussia. But the latter, with all his reactionary outlook—and in this he vies successfully with the Hungarian landed aristocrat—maintains toward his farm hands, servitors and renters a certain patriarchal sense of responsibility that is lacking in his Hungarian counterpart.

Hungary is a democratic kingdom with a regularly elected upper and lower house, but this legislature masks a firmly established autocracy by which every attempt at serious opposition to the existing régime is quickly suppressed. In the rural districts and small towns elections are conducted by open ballot, and every farm worker and renter is expected to repay his master and landlord with political allegiance for the election propaganda which the latter conducts with beer, wine and sweets.

In the fullest sense of that word, Hungary is a paradise for the large landholder. There are in the country approximately 1,100 large landholders and about 10,000 farmers with medium-sized holdings as compared to 840,000 small peasants and over 1,000,000 farm workers. The former, representing 1.3 per cent of the population, own and control 50 per cent of the country's land and wealth—as much as that belonging to the remaining 98.7 per cent. These figures not only reveal the social structure of the nation; they also indicate why the farm problem is the question on which the entire Hungarian economy is centred. All government crises through which the country has gone since the

overthrow of the soviet régime have been brought about chiefly by the growing discontent of the small farmer population. Count Bethlen, who served as Prime Minister for ten years until August, 1931, was forced to resign because his administration was carried on so unequivocally in the interests of the great landholders that the middle and small farmers united with the influential urban bourgeoisie against him.

Count Julius Karolyi, who succeeded Bethlen, took the reins of government at the beginning of the severest crisis in the life of the nation. To him fell the difficult task of creating a new background and basis for Hungary's economic restoration that would enable it to weather this period of extraordinary emergency without too greatly endangering its existence. Unfortunately, he was of insufficient calibre for the task, the more so since a change had taken place in the economic conditions of the elements he represented. Originally he had been the spokesman of that part of the aristocracy which saw in the maintenance of the economic security of the large landholders the end and aim of national existence, and which had managed to hold its own in the catastrophe. But the crisis, as it continued, demanded greater and greater sacrifices, not only from the poor peasantry and the well-to-do farmers, but from a considerable portion of the aristocracy which, up to that time, had been able to keep its holdings intact and not get into debt. Parliamentary support became increasingly uncertain, for the representatives of the small peasantry, whom a similarity of interests with the big farmers that was more apparent than real had kept in the agrarian bloc, now demanded help for the farm population that had been hardest hit and that now was offering a fruitful field for Socialist propaganda. While the endeavor was made to save as much as possible of the power and prestige of

the owners of the large estates, it was realized that a portion of these extensive holdings would have to be sacrificed and divided into small farms to satisfy the growing land hunger of an impoverished peasantry.

The growing radicalization of the small farmer and farm workers brought the Independent Party of Small Farmers a number of surprising victories at by-elections. This success, which was due mainly to a program which had been in part taken from the Socialist platform, induced the agrarian government bloc to present an ultimatum to Prime Minister Karolyi which demanded State relief for needy farmers, regulation of the farm-debt problem by some form of cancellation, cheap farm credits, reduction of interest rates, the curbing of trust domination of prices and the discontinuance of foreign debt payments. To this ultimatum, behind which the hand of Count Bethlen was plainly discernible, the Karolyi government answered with an emphatic negative, and its days were numbered.

Who was to take the place of the Karolyi government? Count Bethlen, who had used the dissatisfaction of the small farmer group for his own political purposes, realized that he was still too much discredited with the mass of the people to be possible as Premier. In this dilemma a man was again brought to the foreground who in years past had been repeatedly referred to as a coming man. This was Julius Goemboes, a strange mixture of political contradictions, though this may have made him particularly suitable for the post to which Regent Horthy now called him. Although he did not take office until Sept. 30, 1932, he has already with characteristic energy tackled the solution of so many problems that he has attracted the attention of the European public to a far greater degree than any of his predecessors. He is Horthy's personal friend, a member of the White Guard and a racial extremist. An avowed



Fascist, he is a man who is well able to wield the strong hand of a military dictatorship, but he is not likely to adopt such an extreme measure until he believes that the time is ripe for it.

In spite of his youth—the new Prime Minister is little over 40—Goemboes has already had an eventful career. When the Hungarian revolution in November, 1918, set up a republic, he was among the first to offer assistance and swear allegiance to the new government. At the same time, however, he organized an officers' society for national defense, which on the ground of alleged counter-revolutionary activities was ordered dissolved by Boehm, Socialist Minister of War in the government of the radical Count Michael Karolyi. Goemboes disclaimed all responsibility, assured the government of the loyalty of the officers' organization, and laid the blame for the subversive propaganda at the door of a brother officer. The society, however, was suppressed and War Minister Boehm refused to have anything to do with Goemboes, who thereupon went to Szeged, where the Whites were encamped, to place his services at the disposal of the counter-revolutionaries there.

Immediately after the overthrow of the soviet government in Budapest Admiral Horthy had undertaken to rid the country of its revolutionists, and in Goemboes he found an energetic and thoroughgoing assistant. For the next few years Goemboes devoted his entire time to the reorganization of the officers' national defense society, which he developed into one of the mainstays of the Horthy régime. His political success is due in no small measure to this body, which gave him standing in army circles.

Goemboes again became prominent a few years later when he began stirring up a racial fanaticism that expressed itself particularly in violent anti-Semitic propaganda through an organization that called itself the

"Awakening Hungarians," the ideas of which were in line with those of the Hitler movement that was just beginning to take form in Germany. However, since becoming Prime Minister he has declared himself in favor of religious toleration and states frankly that he has abandoned his former anti-Semitic views.

The new Prime Minister is no aristocrat, and is one of the few commoners to rise to political importance in Hungary. It was he who frustrated the attempt to restore King Karl to the Hungarian throne, an act for which the aristocracy cannot forgive him. In 1922 Karl, last of the ruling Habsburgs, appeared with troops near Budapest and informed Prime Minister Bethlen through a confidential messenger that he would be hanged if he resisted the restoration. In this emergency Goemboes intervened with notable courage. Placing himself and his followers, the officers' national defense society and a large number of students, at Bethlen's disposal, he offered to advance against Karl and his men. Moreover, he assured Bethlen that if he were defeated the government would be in a position to wash its hands of all responsibility for the "hotheads" who had opposed Karl's return, so that the army and the official government would be absolved from blame. Goemboes was equipped with extraordinary authority; Karl and his army were repulsed, and Bethlen sat more firmly in the saddle than before. Three years ago Goemboes was appointed Minister of War by Horthy, who, never completely trusting Bethlen, desired a special confidant in the Cabinet to assure his control of the army. By virtue of his own appointments while holding this position Goemboes rose from the rank of Major to that of General, for which reason the aristocracy regards him as a rank upstart.

Along what lines will the Goemboes government be conducted? The new Prime Minister has already given an

unequivocal answer to this question. In his announcement of the change of government to Mussolini he expressed himself as follows: "I desire to assure your Excellency of the unshaken friendship and highest regard that unite myself and all Hungary with the great Italian nation and with the man who personifies the new creative genius of Fascist Italy." His first journey beyond Hungarian borders took him to Italy, whither shortly before a delegation of Hungarian patriotic societies had gone to pay their respects to Mussolini. Goemboes himself, on leaving Rome, cordially expressed his gratitude to the Italian Prime Minister as the friend of Hungary, while Italian newspapers came out strongly for the revision of the Trianon treaty. After his return to Hungary Goemboes stated in an interview in the semi-official *Pester Lloyd* of Budapest that conditions in Italy "reflect the virility and the constructiveness of the Fascist movement."

Nevertheless Prime Minister Goemboes is too shrewd not to recognize the stumbling-blocks that lie in the way of establishing a Fascist régime in his own country. He will, therefore, proceed slowly and carefully to achieve this purpose, moving, as is his wont, with caution but determination toward his goal. He has already declared that the obsolete suffrage laws of Hungary are to be replaced by a system of secret suffrage for both town and country, a reform in the direction of liberal democratic development that would radically change Hungarian political life and the composition of the Hungarian Parliament. But nothing is further from his intentions, for has he not also announced his intention of supplementing the general and secret suffrage with a system of representation under which a stated number of Deputies is to be apportioned to each of several economic groups. This system, first introduced by Count Bethlen in the municipal council of Budapest, is now

to be extended to the national Parliament with the intention of preventing any radical opposition of workers or peasants gaining a majority over the representatives of the aristocratic and other conservative elements.

The temper of the Goemboes government is further expressed in its revised military program. The volunteer army authorized by the Trianon treaty has practically disappeared. It has been replaced by volunteer corps that form the basis for the conscripted army at which the Prime Minister is aiming. Hungary, the new Prime Minister recently said, needs peace for the reorganization of its industry, but it must arm to protect itself from the encroachments of unfriendly neighbors and the eventualities that may result therefrom.

The Government party, on which Goemboes must rely in Parliament, is split into two groups—the land-owning conservatives, who still look to Bethlen for leadership, and the more radical agrarian nationalists, whose political and economic ideas underlie the policies of the Goemboes administration. But the acute problems of the Hungarian State lie outside party politics. The representative of the League of Nations in Budapest stated in his last report that the price index for farm products has again fallen 12 per cent during the last year, while the price index for industrial commodities fell only 6 per cent during the last two years, a period in which all other countries reported a fall of prices for manufactured articles of between 20 and 30 per cent. The price policy of the Hungarian trusts is responsible for the fact that the divergence between agricultural and industrial prices is growing steadily greater. Any Hungarian Government that wishes to prove that its "new deal" will serve the interests of the farming population will have to advance in the direction of a drastic reduction of trust prices.

Such a policy would undoubtedly

cost the present government the support of the bankers and the industrial magnates, important upholders of the Government party, which they supply with the largest part of its funds. Without the benevolent support of these financial interests, moreover, the government will find it impossible to cover its budget deficit, which was estimated at 160,000,000 pengoes (\$27,000,000) for 1932. This situation is complicated by the serious decline in Hungary's foreign trade. In the first nine months of 1931 exports dropped 42 per cent and the figures for 1932 show an even more decided downward trend. While in Rome Goemboes pleaded for greater patronage of Hungarian manufacturers, since only 8.5 per cent of Hungary's export trade is with Italy. Prime Minister Mussolini appointed a commission to investigate the possibility of an extension of commercial relations between the two countries, a gesture from which Hungary, however, expects no outstanding results. Negotiations have also been opened with Austria with the same end in view, and it is more than probable that an Italian-Austrian-Hungarian economic treaty will ultimately result. The banking and credit situation adds to the difficulties of the government. Five of Hungary's largest banks are in crying need of reorganization, but do not know where to find available funds.

In these circumstances the prospects of farm reform urged upon the Goemboes government by the Independent Small Farmers party and accepted in principle by the Cabinet are far from bright. Nicholas Kallay, the Minister of Agriculture, has just outlined a plan for the creation of twenty villages with an area of about 15,000 acres, the land to be provided by the government by condemnation proceedings against great estates. Hungary has estates that greatly exceed the area contemplated by this plan. The small farmer opposition has therefore

presented a counter-proposal for the creation of 15,000 new villages with an area of 4,500,000 acres, a project that was flatly rejected as ruinous to Hungarian agriculture by the Minister of Agriculture, who knows that the large landholders as well as the bankers and industrialists would refuse to consider concessions along the lines proposed by the more radical farmers. Yet the political situation will be materially influenced by the attitude of the Small Farmers party, whose leader, the energetic Tibor Eckhardt, is among the close personal friends of Goemboes. It is hardly likely that this party, made up as it is of heterogeneous elements, will take a radical stand against Goemboes. Despite the great consideration he has always shown for the landed aristocracy, he still comes nearer to representing the demands of the small farmers than any other political leader who might become Prime Minister.

The industries of Hungary are undeveloped and outside Budapest are of no great national importance. Official statistics report 250,000 factory workers and 48,000 miners. The Hungarian laborer is poorly paid. He works from ten to twelve hours a day and even longer. In Budapest wages vary from 20 to 25 pengoes (\$3.40-\$4.25) per week. In the coal fields of Gran the best-paid miner earns 4 pengoes (68 cents) per day on piece work. Even more miserably paid are the farm hands who, during the Summer months, work from 4 or 5 A. M. to 8 P. M. for 80 filler (16 cents) per day. Yet farm laborers are treated far worse by their employers than are the workers in factory and workshop.

The hatred of the small farmer for the aristocrat and large landowner becomes in the Hungarian worker a vague and unclear revolutionary emotionalism. This is because there is no revolutionary party with a purposeful leadership. The Communist party, outlawed and almost exterminated since

1919, functions only with the greatest difficulty. In August, 1932, for example, two young Hungarian Communists were executed for having returned from Moscow to Budapest to establish a Communist bureau there. The Social Democratic party and the trade-union movement, although represented in the Hungarian Parliament and wedded to a strictly reformist policy, are also influenced by the measures adopted to suppress radicalism. From the Socialist standpoint, as expressed in Parliament, the accession of the Goemboes government is "an aggravation of the already existing crisis. \* \* \* Its chief purpose is to distract the attention of the dissatisfied masses in the towns and villages from the impossible economic and political conditions." This statement was followed immediately by the suppression of *Nepszava*, the Social Democratic daily, for eight days and by the Prime Minister declaring that "civil rights must be safeguarded, but they must not be abused to an extent that is inimical to our national interests."

The rebelliousness of Hungary's poor peasants is not an isolated phenomenon. The same kind of discontent is ripe among the downtrodden farmers of the Balkan countries and may yet be strong enough to thwart Mussolini's purpose of Italian political control and economic supremacy in those States. A Fascist Hungary might thus be of great importance to Italy, which in turn could grant economic advantages to Hungary and the countries of the Little Entente. For that reason Hungary is more and more definitely transferring its sympathies from France, by whose finance it has been dominated since the World War, to its new Italian friend. A Fascist Hungary, in fact, might yet become the connecting link between Mussolini and his idea of supremacy in the Mediterranean and the Balkan countries. But before that is possible Hungary's internal problems would have to be dealt with and solved along the lines contemplated by Prime Minister Goemboes, and it yet remains to be seen whether he can succeed with his Fascist ideas.



# British Labor Moves Left

By GEORGE E. G. CATLIN

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A CAMPAIGN in Great Britain for the restoration of the fortunes of the Labor party was launched at Nottingham on Nov. 28, 1932, by the veteran Socialist leader George Lansbury. That campaign will need luck as well as vigor if it is to achieve its object, because, in spite of growing discontent with the present government among the working—and still more among the workless—classes in Great Britain, Labor has not yet weathered the storm which swept it out of office nearly a year and a half ago. The results of the municipal elections of the Autumn of 1932, though hailed in some Socialist quarters as indicating the turn of the tide that will swing the defeated back to power, showed in actual figures little more than the expected dissatisfaction with a program of national economy.

Throughout its months of opposition, the British Labor party has been handicapped by multiple difficulties, which arise from the unusual circumstances of the last general election, the economic crisis through which Great Britain is now passing and the present composition and temper of the party itself.

The events of the Autumn of 1931 threw the entire organization and leadership of the party out of gear. On Aug. 24, 1931, Ramsay MacDonald went to Buckingham Palace to inform the King of the resignation of his

Ministry. He returned to tell the Cabinet that its resignation had been accepted—but the usual procedure had not been followed. Instead of the leader of the Conservative Opposition being called upon to provide an alternative government, MacDonald announced that he had been requested by the King to remain in office and form a Cabinet upon coalition lines. The bulk of the Labor party, however, led by Arthur Henderson, the late Foreign Secretary and party organizer, went into opposition.

Now this was not only a remarkable constitutional procedure; it at once weakened the position of the Labor party. The King acts upon the advice of his Ministers and, in effect, upon the advice of his Prime Minister. The monarchy, however, always becomes most constitutionally significant in times of political crisis. In this case it seems reasonable to suppose that, in effect, the Prime Minister acted upon the advice of the King, and retained office, not as the Socialist leader, but as a distinguished statesman of Labor traditions, who was competent to unite around himself a multi-party Ministry under royal approval. The knowledge of that approval undoubtedly commended him to the public.

Nor was that all. MacDonald's action in forming a Coalition Ministry entitled him to claim that he had put the interests of the nation above those of party, while his late Socialist colleagues had put their party before the nation. The cry of "national unity" in a time of economic panic was worth 500 seats in the House of Commons to the government. The protest of the more fiery Socialist speakers that MacDonald had betrayed his

cause, was answered by the Premier's supporters that Socialists were ready to betray their country. Patriotism and anti-patriotism became bywords of the hustings, and the merciless invective of Philip Snowden, the National Labor Chancellor, levied against his former colleagues, produced a profound anti-Socialist sensation which did not disappear at the polls.

It was not easy for the Labor party to replace the leadership of their departed chief and his national colleagues. Though it was "Uncle Arthur" Henderson who had built up the machine of party organization with a diligence and dexterity almost unequaled in English party politics, it was Ramsay MacDonald's picturesque figure that had captured the imagination of the general public. In the middle of the election campaign, Henderson's health broke down, and when, in the early Spring, he recovered, he was forced to be at Geneva, fulfilling his function as chairman of the Disarmament Conference. The full onus of leadership was thrown upon the shoulders of George Lansbury, a man over seventy, who, though remarkable in physical and mental vigor, and personally one of the most popular in the party, had developed his political ideas in circumstances far different from those with which he was now confronted.

None of these disadvantages, however, was so disastrous to the prestige of the Labor party as the wave of economic depression which swept Great Britain in October, 1931. The budget had been balanced, but, in spite of a loan from abroad of £130,000,000 the national government had proved unable to maintain the gold standard. In September, 1931, the number of unemployed receiving relief had reached 2,824,772. The adverse balance of imports over exports in the same month was valued at £38,448,000. Alarm was general, and everywhere the fear of bank failures was intensified by recollections of the collapse of the German mark in 1922. The denunciation of the

Socialist policy whose extravagance had brought the country to the brink of ruin, and the appeal for unity, economy and national revival, on Oct. 27, 1931, gave the National Government 552 seats in the House of Commons. The Labor Parliamentary Opposition was reduced to 46, with the precarious support of six unofficial Socialists. Labor, therefore, went into opposition with a disadvantage which was not alone overwhelming in numbers. To its political and strategic difficulties was added the problem arising from the world economic situation.

Labor's defeat represented essentially the bankruptcy of what had been called "prosperity socialism." This was a policy that had been based upon the theory defined by the great Fabian exponent, Sidney Webb, as "the inevitability of gradualness" and involved the amelioration of working-class conditions—within the existing framework of the capitalist system—by ever increasing doses of public money, obtained by a graduated system of taxation and expended upon social services, insurance benefits and higher wages. This policy had now failed. The capitalist system in Great Britain, already heavily hit by the world trade depression and by the passing of that monopoly of certain manufactured exports upon which its original prosperity had been built, could not afford the additional drain upon its resources of Socialist "gradualness."

Two alternative policies were then conceivable. The first was a clean break with capitalism, and a Socialist program of both remedy and reorganization; but for such a policy public opinion was in no sense ready. For the second the country had, in returning the national government, declared with unequivocal assurance for the full restoration of prosperity to the capitalist system by reducing all grants to public services, by relief of industry from taxation, by the encouragement of empire trade through negotiations opened at an imperial

economic conference and by the stimulation of home manufacture for home markets through a system of tariffs.

At the general election, the Labor party found itself in definite opposition to the second policy without feeling ready to commit itself to the first. It was not only associated with the "ameliorist" program by having practiced it in office, but many of its older leaders had become sincerely attached to its principles through years of patient effort, and were exceedingly reluctant to abandon them as no longer practicable. Nor was there any united agreement upon a positively Socialist program. The previous elections had not been fought on this; the official statement, *Labour and the Nation*, lent itself as much to a reformist as to a more pronounced Socialist interpretation, and the consequence was that while the 550 supporters of the national government could assure their constituents that their united intention was to save the nation and capitalism together, the forty-six labor members were committed neither to salvation nor to destruction, and consequently were robbed at once of more than half the force of their appeal.

Further, the Labor party was handicapped by its own hesitations on the fiscal issue. The election had been fought to no small extent upon the question of tariffs versus free trade. The Conservatives insisted upon their traditional party remedy; MacDonald and his followers, in a less committal fashion, asked for a "free hand"; the national Liberals, following Sir John Simon and Sir Herbert Samuel, promised to give temporary tariff measures impartial consideration on the merits of the case. So far as the country was concerned, the national candidates stood committed to examine and probably to adopt protective tariff measures.

In the circumstances, Labor candidates appeared to be fighting the election as free traders. Since the days of Joseph Chamberlain, citizens had voted for tariffs or for Cobdenite

free trade, and now, since the national candidates preached salvation through protection, their Labor opponents countered by stressing its dangers, its interference with international markets and its opportunities for the play of vested interests. To some Labor candidates, these arguments were unanswerable. Arthur Henderson and the late William Graham were both, by early education, free traders. Free trade commanded the international sympathies of other prominent members of the party. Free trade was anti-Tory, and its espousal might be expected to win the votes of hesitating Liberals. The issue was complicated by the fact that Philip Snowden, the staunchest free trader of the party, who while Chancellor of the Exchequer had impeded various Socialist measures for control, especially in agriculture, had joined the protectionist party, owing to his sense of the major obligation—to balance the budget.

Moreover, free trade is not essentially a Socialist principle. The Labor party was already committed in its official statement of policy, *Labour and the Nation*, to the principle of trade control in connection with the work of industrial planning and socialist organization. It had gone still further during the Labor party conference at Scarborough in 1931, when it approved of a system advocated earlier of bulk purchase of raw materials and of control by import and export boards.

Labor, therefore, went into the tariff controversy with a divided mind, and through the accidents of political strategy, came out on the losing side. When the national government began at once to put its policy into practice, the Labor opposition found itself committed to a long rear-guard action, fighting a fiscal system about which it had not yet reached a decision.

During the subsequent year, however, the position of the Labor party has been clarified. It has fought the

new protectionist policy, not on the old Liberal ground that tariffs restrict trade and interfere with the principle of *laissez-faire* but because they are ineffective in action, nationalistic in conception and, in practice, penalize the working-class consumer for the benefit of industrial dividends. It has declared that once tariff walls are erected, with their concomitants of sheltered industries and vested interests, it will be immensely difficult for Great Britain, even when the crisis is past, to cut adrift from the system. It has been highly skeptical about the alleged advantages of tariffs as weapons for bargaining with other nations. And further, it has been able to point out that the immediate effect of the new duties was to do away with the trade benefit, pleaded by the government, to be expected from the devaluation of the pound.

Fortunately, Labor has been able to show that actually the new measures have had little effect upon national prosperity. By September, 1932, the unemployed on the register numbered 2,858,011, which, together with those who would have been registered save for the anomalies act and other administrative alterations, makes a total of at least 3,028,000. The excess of imports over exports in the same month stood at £28,638,000, the change as compared with the previous year being the result of a decrease in imports. The resignation, after Ottawa, of the Samuelite Liberals and of Lord Snowden in protest against the national government's imposition on the country of an elaborate tariff system, with overseas obligations, added great strength to these Opposition arguments.

Thus in the course of the year, the Labor position on the primary fiscal issue passed from embarrassment to greater confidence, as events strengthened its hand, and as its theorists cleared their own minds. By the time of the Parliamentary debate on the Ottawa agreements its spokesmen were no longer dependent for their

objections upon the old Cobdenite arguments. They were free to point out that, while there is no objection to regional agreements between States maintaining a high standard of living designed to check unfair competition from low-grade capitalist countries employing the weapon of wage-cuts, these understandings should emphatically be economic and not national in principle, and should therefore include the Scandinavian countries, the Argentine and the United States.

Socialists were able to prophesy that the advantages to British industry, especially to the primary interests of cotton and steel, were likely to be small, that the increase of food prices was certain, and that the Ottawa agreements were, at their best, one more example of that nationalistic restraint of trade which is everywhere throttling the chance of economic recovery. Lansbury, speaking in Derbyshire on Nov. 14, 1932, declared that Labor refused to consider itself bound by continuity of policy, and if returned to power, would cancel the Ottawa agreements at the first opportunity.

The task of Labor in relation to other problems of international policy has been psychologically simpler, for its own mind has been clear at least on the question of world peace. But here the government's record has been more respectable, and less easy to fight. In foreign policy, MacDonald retained his only sphere of non-Conservative action, and although the hesitations of Sir John Simon at the Disarmament Conference, during the early months of the Manchurian affair, and throughout the whole complicated discussion of Franco-German relations, made him a convenient butt for Socialist criticism, Stanley Baldwin's continued support of the Prime Minister enabled him to avoid those extremes of nationalism into which his more fanatically Conservative colleagues would have led him, and which would have supplied the Oppo-



sition with more effective powder and shot.

It has been in India and Ireland that the national government has laid itself open to more fundamental criticism, and here Lansbury has led a vigorous campaign, especially against that policy of Indian emergency ordinances under which not only terrorists but many Indian political leaders have been imprisoned on the ground of civil disobedience. While condemning terrorism and all forms of violence, the Labor party has urged that the methods of suppressing disorder should provide adequate safeguards against miscarriage of justice. It has further maintained that the only stable basis for the constitution of an autonomous India is to be found in the free collaboration of all the major political groups, and not in the substitution of repression and outlawry for discussion, in the hope that Liberal politicians, with limited popular support, may prove adequate substitutes for the imprisoned Congress leaders. During the party conference at Leicester in October, 1932, this attitude received emphatic endorsement.

Meanwhile, the dispute with the Irish Free State has given ample opportunity for that criticism of imperialism which has remained one of the major planks in the Socialist platform, though the virulent nationalism of President de Valera is theoretically no less objectionable to Socialistic purism.

Neither fiscal, foreign nor imperial policy, however, has held the centre of the political stage. The tariff proposals were prepared by the government as a cure for trade depression, but unemployment has overshadowed all discussion of indirect and eventual remedies. Here Labor has had a perfectly clear and undisputed obligation. The national government, in the hope of ultimately restoring opportunity for work, began as soon as it came into office to practice those "economy cuts" which have reduced insurance benefits, diminished the operation of

social services, and decreased the wages of government employees. All these experiments, the Labor Opposition has observed, merely intensify the present economic chaos by increasing the causes for underconsumption.

Most obnoxious of the unemployment policies has been the operation of the device known to the country as a whole as the "means test," and to the *Conservative Times* as the "need test." This measure of economy resulted from the recommendation of the May Economy Committee, appointed by the Labor government. Labor Ministers themselves when in office had considered various possibilities of its application without reaching any decision. As the national government adopted it, it meant the refusal of transitional benefit to all unemployed whose near relations were judged able to support them. The test was administered by the public assistance committees of local authorities, and was associated in the minds of the workers with all the humiliation that in England still attends poor-law relief from local rates. The practice of the different local committees varied widely, but among other hardships fiercely resented by the unemployed were the counting against relief of war pensions and the orders to liquidate savings and sell cottages before benefits could be received.

At the end of the first Parliamentary session the need for some revision became clear even to the government. But its supporters still upheld the necessity for drastic economies in public expenditure, the closing down of nursery schools, the curtailment of health and educational services and the postponement of municipal building. Such expenditure, it was maintained, actually increased unemployment, since burdensome taxation discouraged private industry, enterprise and investment.

The Labor Opposition, however, upholds the contrary view. It has persistently declared that adequate scientific and mechanical means exist in

the Western World to provide a sufficiency of communal wealth. The cause of poverty must be sought in defects of the economic system, and it is inappropriate to inquire into the extent of contributions made mutually, thanks to filial or parental sentiment, by members of the poorer classes.

The effectiveness of this case depends very largely upon external circumstances. If the government could, by its chosen methods, restore some measure of prosperity to the State, its position would be enormously strengthened, and the Socialist appeal would still attract, on the whole, only the victims of an economic system that operated well enough to satisfy the majority of citizens. But such prosperity has not yet been achieved.

Meanwhile the Labor party has had time to reconsider its position and to measure the failure of that "prosperity socialism" upon which it endeavored to base its policy while in office. During these months in the wilderness the most significant development within the party has been the deeper comprehension of the precise meaning of socialism. Socialist publicists, like Harold Laski, G. D. H. Cole and R. H. Tawney, and organizations such as the Society for Socialist Enquiry and Propaganda, have spent their time endeavoring to make clear to the rank and file of the party and to the trades unions the economic and political implications of the Socialist creed and the reasons why the old compromise policy so signally failed.

The proceedings of the Leicester conference last October indicated the measure of the advance. An amendment, proposed from the floor of the conference, extending the party's proposal to nationalize the Bank of England so as to include also joint stock banks, secured a majority of votes. A resolution was also adopted to require that the next Labor government be instructed immediately on assuming office to promulgate definite Socialist legislation and to stand or fall by the principles in which the party

holds faith. Executive proposals were adopted for the establishment of a national transport board for the unification, coordination and control of transport facilities, for the national ownership of electrical power and for the national planning of agriculture with authority to regulate imports. A more conservative report submitted by the general council of the party to the Trades Union Congress in September, 1931, was referred back.

All this means that, in opposition, Labor has definitely moved to the left. It still has not gone far enough for all British Socialists. The Independent Labor party, one of the mother bodies of British socialism, has a membership whose quality—ardent, self-sacrificing and alert—gives it far greater influence than does its numerical strength. But the I. L. P. refuses to recognize in the new developments within the Labor party an adequate break with the old ameliorist policy of compromise. In July, 1932, at a conference held in Bradford, it voted by a considerable majority to break away from the Labor party. Under the chairmanship of Fenner Brockway, an independent group has been formed pledged to "psychological revolution" and a complete revolt against the implications of the dominant economic system. Thus has the Labor party lost its picturesque and ebullient Left Wing.

The minority of the I. L. P. which at Bradford voted for continued affiliation with the official party, has not been content to relapse into mere inarticulate membership. Under the chairmanship of E. F. Wise and with the blessing of Arthur Henderson, its more active representatives have formed a new body called the Socialist League, to act as a vigorous propaganda and research organization within the party, and in close cooperation with the Society for Socialist Enquiry and Propaganda. The constitution of the new League states that "aware of the evils that a physical struggle would bring with it, the So-

cialist League seeks to avoid it by rallying to the movement of liberation forces irresistible not merely by their numbers but by their reasoned conviction." It proceeds to emphasize the importance of a spirit of personal devotion, and its founders desire to realize in it something comparable to the "Z Society," which, on various occasions, H. G. Wells has sketched. They seek to supply the Labor party with an organized Socialist stiffening, and with something corresponding morally to a body of shock troops. It is still too early to prophesy whether the new league will succeed in stirring its members to that disciplined enthusiasm which has on other occasions enabled organized minorities to change the political and economic system of modern States, or whether it will go the way of a dozen other Socialist organizations, and subside into little more than an amiable sectarian debating society.

What is already clear is that the temper of the British Labor party has changed and is still changing. Its younger members are passing through a period of transition when common agreement upon questions of finance, nationalization, fiscal control and the

reorganization of industry is still difficult to achieve. It still faces the unsolved problems of sectional jealousy between the political and industrial branches of the movement, the "intellectuals" and the "working classes." The degree to which, in periods of crisis, traditional constitutional and Parliamentary methods may be set aside, has hardly yet been debated, though individual publicists and politicians continue to express varying opinions, which would gain in significance at the approach of such anticipated crises.

The party as a whole becomes increasingly formidable as it forsakes its earlier Liberal inclinations and strengthens its Socialist character. It is preparing to offer to Great Britain not merely an alternative political government but an alternative way of life. The intensification of national difficulties, the growing hardship of the working classes and the gradual consumption of trade union resources only confirm this development. While in office the British Labor party was prepared to compromise with capitalism, but in opposition it has turned Socialist.

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# Toward Safer and Stronger Banks

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WHATEVER the action of the present Congress on the banking reforms projected by the Glass committee, a number of banking leaders and economists will urge the incoming administration and Congress to bring about changes in the American banking structure, not only more fundamental than the current Glass bill contemplates, but in line with the historic reforms initiated just twenty years ago by President Wilson, Carter Glass, then Chairman of the House Committee on Banking and Currency, and other sponsors of the Federal Reserve act.

Those reforms, as no one realizes better than Senator Glass himself, have never been fully achieved. On the contrary, the greatest banking catastrophe in the history of the United States has occurred during a period in which the Federal Reserve System was at its strongest. Because the system was powerless to avert the sudden and widespread undermining of an enormous part of the country's monetary and credit structure, the larger reforms referred to will be pressed as soon as Senator Glass's pending bill has been acted on, and as rapidly as the various banking factions can be persuaded to accept a common policy.

After the two years of furore and alarm among bankers over the prospect of mandatory reforms imposed from Washington, a substantial body of banking opinion, strangely enough, now regards the Glass bill not as "going too far," which was the origi-

nal objection to it, but as not going far enough. As will presently become clear, this is by no means inconsistent with the resistance to new legislation manifested by bankers a year ago and two years ago.

A revision of the Federal Reserve act under Senator Glass's leadership was foreshadowed by his warnings during the speculative excesses of 1927-29, though at the time he saw that the obsession of "prosperity" had such a hold on popular, political and banking imagination as to render futile any attempt at remedial legislation. By the Summer of 1930, however, the situation had changed. During the long and inconclusive extra session on tariff revision he therefore tentatively put forward a program designed to remedy, in the Federal Reserve and national banking systems at least, defects and abuses that had contributed to the orgy of speculation. In the latter part of January, 1931, the Glass committee began its hearings at the regular short session of Congress. A serious banking panic, though for obvious reasons it was not called by its real name, had then been in progress for three months. Some 800 banks had failed, among them the two largest American banks ever to close their doors, and innumerable other banks were facing runs.

Nothing was now more remote, therefore, than an early renewal of the banking practices that had encouraged excessive speculation. The conditions of 1927-29, with which the Glass program was mainly intended to deal, had changed much more than was expected when the Senate had ordered the inquiry by the Glass committee. Hence bankers confronted on



the one hand by an alarming crisis, and on the other by an investigation and legislation for which they held there was no urgent need, assumed toward the Glass program an attitude of either disparagement or open hostility. There was, moreover, a wide difference of opinion among themselves on some of Senator Glass's proposals, though a few important leaders advised far more drastic changes than Senator Glass then proposed. George L. Harrison and Owen D. Young, governor and vice chairman respectively of the Federal Reserve Bank of New York, urged that all commercial banking be brought within the Federal Reserve System and under uniform regulation. John W. Pole, then Comptroller of the Currency, repeated his proposal that trade-area branch banks be authorized throughout the national banking system. Henry M. Robinson, chairman of the Security-First National Bank of Los Angeles, and the most intimate of President Hoover's banking advisers, urged the immediate creation of a Federal Reserve agency to provide relief to depositors of closed banks, and provision for such an agency, to be known as the Federal Liquidating Corporation, was subsequently included in the Glass bill. But these men were decidedly in the minority. Most bankers, through their national associations, stuck to the policy of resistance to any material changes in the banking laws.

Senator Glass, remembering that precisely the same organized resistance had come from the great majority of bankers when his bill of 1913 was being drafted, nevertheless proceeded with the banking inquiry. In January, 1932, after the reconvening of Congress, his committee unanimously reported its bill, subject only to Senator Norbeck's dissent on the branch-banking provisions. As is well known, the bill as then introduced in the Senate caused consternation throughout the banking community, and the feeling was shared in part by the Federal Reserve authorities both

in Washington and in the several Federal Reserve districts. The main causes of alarm lay in three of the thirty-four sections of the committee's complex bill, the whole of which covered sixty-one printed pages.

The first, and at the outset most serious, anxiety resulted from the discovery by Federal Reserve officials and officers of member banks that the bill apparently made obligatory a great liquidation of security loans and investments then held in portfolios of member banks—and this at a time when the security markets were already demoralized. Although such a purpose was disavowed by the members of the committee, the language of the bill was undoubtedly ambiguous.

Second, the bill specifically required member banks with security affiliates to divorce themselves from the latter within three years. The business of some of these affiliates had, in recent years, grown enormously and had become closely bound up with the nation-wide network of the large correspondent banks in New York and Chicago which handled the reserves or other funds of thousands of smaller banks. Only a few of these correspondent banks, conspicuously the Central Hanover of New York and the First National of Chicago, were not operating through affiliates as aimed at by the Glass bill. The large banks with such affiliates fully expected them to be placed under Federal supervision; in fact, Albert H. Wiggin and Charles E. Mitchell, speaking for the Chase National Bank of New York and the National City Bank of New York respectively, had themselves recommended this to the Glass committee; but the formal move to abolish the affiliates came as a violent shock. Further, it coincided with a period of great international disturbance and with the passage of the Reconstruction Finance act to deal with the banking crisis in the United States.

Third, the bill authorized national banks with a capital of \$1,000,000 or more, subject to approval by the su-

pervising and examining authorities, to establish State-wide branches and to cross State lines within a trade area of fifty miles. Branch banking is historically a subject of controversy, never more bitter than in recent years, among American bankers. Since about two-thirds of the country's banks are State banks, and since all but a few States either rigidly limit branch banking or prohibit it altogether, the Glass committee's proposal to disregard both State laws and State lines was instantly resented.

While the second and third of these provisions roused most of the opposition to the Glass bill, the concern momentarily roused by the first was seized upon as common ground for a vigorous drive to "kill the bill." In addition, some banking leaders, though in general accord with the conclusions of the Glass committee, regarded the bill as causing an inopportune controversy in the midst of the confusion and uncertainty arising out of the banking crisis, which had then lasted for fifteen months. In fact, the crisis was not really past until the last week of June, 1932. When, however, the present session of Congress opened in December, a marked change had evidently taken place in the attitude of many bankers toward the two recommendations that had drawn most fire.

With regard to security affiliates, an important influence was the unanimous concurrence of the Federal Reserve Board, on March 29, 1932, in the recommendation that after three years member banks with such affiliates be separated from them, and that the latter meanwhile be placed under Federal regulation and supervision. This discountenancing of security affiliates by the Federal supervising and examining authorities—among whom were Secretary Mills, Comptroller Pole and Governor Meyer, the last a former Wall Street banker of large experience and widespread interests—was too important to be disregarded by any part of the banking community, and no attempt was made to do so.

Another highly important factor, which came into play in April, 1932, was the disclosure by the Senate stock-market inquiry of the Anaconda "pool" operations of Percy A. Rockefeller and James A. Stillman, leading directors of the National City Bank of New York, during a period when the National City Company was projecting its huge accumulation and distribution of Anaconda shares. This disclosure led in June to the admission by Charles E. Mitchell that such operations were not "within the precincts of propriety" for a bank's directors. Then, disclaiming contemporary knowledge of any of the various pool operations of Rockefeller, Stillman and other City Bank officials, Mr. Mitchell volunteered the assertion that he could reproach himself for National City's own activities in Anaconda. "If you asked me now," he said, "whether in the light of experience I think an operation of this kind is a good thing for a bank or a bank affiliate, I tell you frankly I do not." Asked whether National City had created any good-will by going into the sale of stocks, he answered tersely: "We created ill-will."

The most impelling of all the influences that account for the change of front toward affiliates is the extent to which many of their activities, eventually ending disastrously, have impaired the public relations of the parent banks. They have done much to discredit and undermine the correspondent banking system. The actual or potential losses incurred by thousands of small banks and by their officers individually, and attributed in innumerable instances to the relationship of correspondent banks with affiliates, have in the past year or two reached a staggering total. Senator Glass's chief collaborator in the work of the Glass committee, Senator Walcott, who, like Governor Meyer, is a former Wall Street banker and a man of large means, has lately been more severe than Senator Glass himself in condemning this aspect of the affiliate relationship. Senator Walcott holds it

to be primarily responsible for the bank failures and other banking troubles of the last three years.

The result of this investigation and criticism during the year that has elapsed since the Glass bill was introduced in the Senate has been that, with only three important exceptions, the largest banks operating security affiliates, and many smaller banks as well, have announced that henceforth they will confine their security dealings to those explicitly permitted to them by law. They have accordingly either eliminated their security affiliates completely or taken the necessary legal steps to do so. In other words, one of the two proposals for reform that upset the banking community only a year ago has already been voluntarily carried out on a scale then held to be impracticable within a limit of three years.

With regard to the Glass committee's proposed extension of branch banking, the shift in the position of many bankers has been less pronounced, but by no means inconsiderable. While most bankers are still undoubtedly hostile—there is no evidence, as Senator Glass has pointed out, that depositors share this hostility—the number of bankers who favor State-wide or trade-area branches has been steadily increasing for some years. During the last three years it has increased rapidly, and since the Glass bill was introduced more than in any corresponding period. Of about 30,000 banks that existed when the thirteen-year epidemic of bank failures began in 1920 more than 10,000 have failed, half of them in the last three years, and it may be safely assumed that at least 90 per cent of those which failed were among the majority opposed to branch banking. Lately, too, there has been a changing outlook among both country banks and "neighborhood" banks that have been hard hit by the depression and discouraged by the prospect of having to re-establish a satisfactory earnings-position on their limited capital. Many

of these, including a large part of the 5,000 banks that have had to seek Federal aid through the Reconstruction Finance Corporation during the past year, would welcome either State or Federal legislation that would enable them to negotiate with large metropolitan banks to be taken over as branches.

At the same time some large correspondent banks, formerly inclined to discourage branch banking, have been seeing things in a new light. During the recent crisis the correspondent relationship became in numerous if not indeed in most instances a distinct liability and a source of anxiety and loss. Much of the aid extended directly to small banks by the Reconstruction Finance Corporation had the indirect purpose of paying off the loans they had obtained from their metropolitan correspondents. This in part accounts for the much greater liquidity shown in the composite statements of "reporting member banks" than in those of smaller banks. The decisive influence, however, in winning over many metropolitan bankers to the branch-banking proposals of the Glass committee was the two-year avalanche of failures in the Chicago district, for years the stronghold of the opposition to branch banking in any form. These failures culminated in June, 1932, in a threat to the entire banking system of the country, and necessitated the total guarantee of the deposits of the Dawes bank by a group of New York and Chicago banks and the Reconstruction Finance Corporation in order to avert a national disaster. The lessons of that experience, as Thomas W. Lamont, the principal spokesman of the Morgan banking interests, observed in his plain-spoken address to the Academy of Political Science, on Nov. 18, 1932, "must be glaringly obvious to the whole country. \* \* \* The small, ill-capitalized institutions should be merged [as branches] so as to gain the normal stability, diversity, econ-

omy and management of the larger concerns."

But even for Mr. Lamont this is plainly a long and bold step, however logical, from the indiscriminate condemnation of the Glass bill—from the absurd denunciation of it as the chief obstacle to financial confidence and business recovery—voiced by the banking community and the financial press during the early months of 1932. Yet so great has been the cumulative pressure of events that many other bankers, in common with Mr. Lamont, now not only frankly support the most disputed recommendation of the Glass committee but in addition join with Governor Harrison, Owen D. Young, Frank A. Vanderlip, Pierre Jay and other leaders who have recently urged a reorganization of the entire banking structure on the Federal Reserve foundation.

The failure of the Federal Reserve Board to join the Glass committee in taking a forthright position on the question of branch banking has been variously interpreted. Approval by the board would, of course, have carried great weight, as did its declaration on security affiliates. The board, however, did not formally commit itself on branch banking, because of its decision, in responding to Senator Glass's request for a statement of its views, to confine its conclusions to matters on which the members were unanimous. Five members—Secretary Mills, Comptroller Pole, Governor Meyer, ex-Governor Charles S. Hamlin and Dr. Adolph C. Miller—were disposed to concur in the committee's branch-banking recommendation; the remaining members, George R. James and Wayland W. Magee, were not prepared to give a final decision.

During the weeks of the final hearings on the Glass bill, of which the presentation of the board's report by Governor Meyer was the climax, the atmosphere of bewilderment and belligerency was so great in both Wall Street and Washington that it was

virtually impossible for the public to obtain a coherent account of what was going on in the crowded committee room of the Senate Banking and Currency Committee. Thus the most important recommendation made by the Federal Reserve Board escaped the wide notice and discussion that it merited until it was recalled by the vigorous support given to it by Mr. Lamont. Actually the board unanimously put forward the only proposal on which there is a prospect of effecting an agreement between the banking majority that opposes branch banking—the so-called irreconcilables—and those who hold that a decisive and nation-wide raising of standards is manifestly imperative if the future of American banking is to be essentially different from its disastrous past. "It should be recognized," the board said, "that effective supervision of banking in this country has been seriously hampered by the competition between member and non-member banks, and that the establishment of a unified system of banking under national supervision is essential to fundamental banking reform."

This in reality restated the essence of the Federal Reserve act. When that act was adopted its authors expected that, once the Federal Reserve System was established, virtually all commercial banks in the country would before long qualify for membership, and that a general raising of banking standards would thus result. On the contrary, the great majority of State banks from the outset resisted all overtures made by President Wilson and the Federal Reserve authorities to induce them to apply "voluntarily" for the membership that was mandatory for all national banks. In this resistance they were encouraged by the large correspondent member banks, which became in effect the reserve system of the non-member banks, offering them inducements, particularly in the form of interest on reserve balances, that were not avail-



able through the Federal Reserve Banks. Then, beginning in 1917, Congress progressively lowered the Federal Reserve and national bank standards, first making the requirements for membership for State banks less exacting than for national banks, and subsequently relaxing the restrictions on national banks to enable them to compete more effectively with the State member and non-member banks operating under "liberal" charters.

At the peak of State-bank membership, in 1922, only 1,648 in a total of about 20,000 State banks had entered the Federal Reserve System. At present, of less than 12,000 State banks that have survived the bank failure epidemic of 1920-33, fewer than 800 are members of the system. And it is among the State banks, of course, that most of the failures have occurred. The total number of failures in the thirteen-year period has been approximately 10,750. Of these, about 9,150 have been among State banks. The State banks also predominate among those receiving Federal aid through the Reconstruction Finance Corporation, as they did in the earlier years of the bank failure epidemic, when similar Federal aid was extended to about 6,500 banks by the revived War Finance Corporation. On the latter's list more than 80 per cent were State banks; on the list of the Reconstruction Finance Corporation more than 70 per cent. The work of both these auxiliary banking systems established by the Federal Government to deal with banking crises has made it evident, in the opinion of competent observers, that the "reserve system" of the correspondent banks, on which approximately two-thirds of the banks in the country have previously relied, is a "fair-weather system" that cannot be regarded as an acceptable alternative to membership in the Federal Reserve System.

To the continuous lowering of banking standards for both State and national banks over the last fifteen

years the Federal Reserve Board ascribes the failure of more than a third of the country's banks since 1920. The position of the board, therefore, as reflected in its chief recommendation to the Senate Banking and Currency Committee and in the testimony of Governor Meyer at several Congressional hearings in the past year, is that the banking crisis of 1930-32 was primarily caused, not by the depression, nor by events abroad, nor by the speculative excesses that originally prompted the Glass bill, but by defects inherent in the country's banking structure as a whole—defects that cannot be remedied except through legislation by Congress to bring all commercial banking in the United States under uniform standards of regulation and practice.

The essential problem stated by the board and by other banking leaders who support its position is to eliminate what Governor Meyer has at various times called "competition in laxity." He first used the phrase in 1923, when, as managing director of the War Finance Corporation, in describing the causes of the post-war banking crisis, at a hearing by the House Banking and Currency Committee, he pointed out that the unwholesome and mutually weakening competition between the forty-eight State banking systems and the national banking system was a matter of serious concern. "Nothing," he said, "could be more disastrous than competition between the State and the national banking groups based upon competition in laxity." As the remedy, he urged an effort toward "mutual understanding" among banking leaders who were in a position to influence the State non-member banks to become members of the Federal Reserve System. He has since, however, in common with Senator Glass, Mr. Hamlin, Dr. Miller, Mr. James and others who formerly hoped that a unified system might be established by voluntary action of the

banking community, come to the conclusion that it can be accomplished only through Federal legislation.

A measure sponsored by Senator Glass and designed to create the unified system of banking recommended by the Federal Reserve Board may thus be expected to be one of the major legislative proposals of the Roosevelt administration, though perhaps not in the forthcoming session of Congress. At Senator Glass's request the legal department of the Federal Reserve Board last Summer and Autumn made an exhaustive study of the constitutional basis for the proposed measure. The results, in the form of a lengthy opinion by Walter Wyatt, the board's general counsel, were transmitted to Senator Glass by Governor Meyer early in December. The principal grounds on which Mr. Wyatt advised the board that the legislation be based are these:

1. The power to create the National Banking System and the Federal Reserve System as useful instrumentalities to aid the Federal Government in the performance of certain important governmental functions includes the power to take such action as Congress may deem necessary to preserve the existence and promote the efficiency of those systems.

2. Having provided the country with a national currency through the National Banking System and the Federal Reserve System, Congress may constitutionally preserve the full benefits of such currency for the people by appropriate legislation. (This is based on the practical ground that bank checks have become the principal circulating medium, and that bank failures therefore seriously impair the value of the chief national currency.)

3. The existence of a heterogeneous banking structure in which there have been more than 10,000 failures during the past twelve years constitutes a burden upon and an obstruction to in-

terstate commerce; and Congress may enact appropriate legislation to correct this condition.

According to Mr. Wyatt's exposition, Congress has ample power to compel all institutions engaged in commercial banking to conform to all the requirements of the National Bank act; that is, either to convert themselves into national banks or to limit themselves to savings and trust functions under State laws. As a matter of practical policy, however, such an extreme measure has not been proposed by the advocates of a unified system of commercial banking. They have tended rather to put the emphasis on compulsory membership in the Federal Reserve System under uniform regulation and supervision. For this purpose it is to be expected that the Federal Reserve act would be amended, temporarily at least, to enable the Federal Reserve System to "reach down" to State banks that are at present not eligible for membership, but that might gradually be put in a position to meet the Federal Reserve requirements.

In the light of the lamentable record of bank failures and of the other troubles that have resulted in the demand for more comprehensive reforms than the pending Glass bill contemplates, one of the most significant comments of the board's counsel on further legislation is that with which his report concludes: "The time intervening between the enactment of such legislation and the date when it becomes effective could be devoted to the preparation and enactment of additional legislation for the purpose of providing further for the more effective operation, regulation and supervision of the National Banking System and the Federal Reserve System, by repealing undesirable amendments to the National Bank act and the Federal Reserve act which grew out of the competition in laxity."

# America's Wandering Boys

By OWEN R. LOVEJOY

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WANDERING aimlessly about the United States today are 200,000, maybe 300,000, homeless boys. Uprooted by the economic and social crisis, they seek they know not what in traveling back and forth across the country — hitch-hiking, riding the rods and employing the historic shank's mare. The social implications of this army of vagrants are no more certain than the exact number of the footloose. Some communities have found the homeless boy an acute problem; others have found the problem non-existent; but the homeless boy is a fact, and Newton D. Baker, chairman of the National Welfare and Relief Organization, has said: "I am sure their number is vastly in excess of any estimate anybody has made." Certainly some experienced social workers believe that the stage is set for a nation-wide demoralization of youth for which society in the future will pay a heavy penalty.

Children, of course, have been leaving home, running away, seeking adventure, stealing, begging, disappearing and getting into all sorts of difficulties since the world began. America has experienced its share of that problem, but no one—with the exception of the immediate family and serious-minded social workers—has been unduly excited because the number of children involved was "what might be expected."

Who comprise this army of vagrant children? Without doubt many people

have mentally pictured a horde of little boys and girls scantily clad, thin-legged, hollow-chested, hungry, on the point of tears at bedtime because there was no bed, wandering in droves through town and country. Such an impression, if uncorrected, would present a serious obstacle to any organized or constructive work on behalf of homeless or wandering youth because, when the kind-hearted American looks up and down the streets or drives through the country without finding any regiments of this vast army, he is likely not only to recoil from any interest in the problem but also to have his confidence in the entire range of welfare work shattered. Fortunately the photographs published with these sensational tales show an absence of little children. These "boys on the loose" or "homeless children," who today are the object of so much public concern, are nearly all boys from 16 to 21 years of age. Many are vigorous, strong, husky young fellows, the age of runaway volunteers in time of war or of army and navy recruits in time of peace.

The ragged and dirty youth of 18 is seldom an object of pity, but rather of concern. He is too awkward to be cute and too big to be coddled. The public is irritated by his cracked voice and his condescending manner. Yet he is passing through the most difficult and critical phase of his history. He is undergoing a change that is no less mental and emotional than physical. In no other period of his life is the need for understanding and sympathetic comradeship more urgent.

It is impossible to determine the number of vagrant children; 300,000 may be too many, because surveys are contradictory. One must always ques-

tion whether these 300,000 represent individuals or community contacts. For example, a boy who leaves Seattle, riding the rods to New York, is more than likely to spend a night or two in San Francisco or Los Angeles, where he is counted among the homeless of those cities. He may appear in towns of New Mexico or Texas, in New Orleans, Atlanta, Richmond, Washington and Baltimore, or Kansas City, Cincinnati, or Buffalo, before reaching New York. In each place he may be counted among those who have been cared for and "moved on." Since the majority of this army is ever on the march, it is not unlikely that those cared for in the various cities are counted in five or ten places, so that the total number of individuals may be considerably less than the estimate of 300,000. But no matter what is the exact number, a social problem exists.

The presence of these wandering youths is less apparent in the East than in the West and South. In fact, in many smaller Eastern communities migrant youths have gone out of town instead of coming in, and distraught families are appealing to social agencies to try to locate their boys and to send them home. On the other hand, in larger cities, and especially in the West, a steadily increasing stream of youthful vagrancy calls for the most serious attention.

A few samples from the mass of data gathered throughout the country will help to visualize the situation. In Phoenix, Ariz., 1,530 transient boys between the ages of 16 and 21 were registered in 1932 by the Volunteers of America in one month—March 7 to April 4—and each boy was given only one night's lodging and three meals.

The Travelers' Aid Society in Salt Lake City reported that 1,050 boys passed through the city in five months ending March 1, 1932. But this was during the Winter, when travel was difficult. In the first two weeks of October, 1932, more than 400 boys passed through the city.

In Atlanta, from November, 1931, through April, 1932, the Salvation Army extended relief of some sort to 1,971 transient boys under 21 years of age among the 7,350 transient male applicants for aid; 116 of these boys were 16 years of age or less. The same organization has records for all the Southeastern States, a region where practically all work among transient boys is carried on by the Salvation Army. The following table, for three months of 1932, gives a fairly accurate estimate of the number reached by the Salvation Army, although its field secretary has said: "There were numerous boys and young men who did not apply to relief agencies, but used other methods of getting by while on their journey."

TRANSIENTS (UNDER 21 YEARS OF AGE).

Division.	June	July	August
Alabama, Mississippi	371	420	722
Florida and Georgia.	286	231	274
Gulf .....	305	424	316
Kentucky, Tennessee	515	825	705
Maryland .....	396	361	395
No. and So. Carolina.	1,003	1,051	1,397
Oklahoma .....	515	184	145
Texas .....	249	265	338
Virginia .....	224	281	437
Washington, D. C. . .	316	286	222
West Virginia.....	410	385	443
Atlanta only.....	69	74	65
Total .....	4,659	4,787	5,459

The Children's Protective Association of Los Angeles discovered that in the first six months of 1927—before the depression could be held responsible for this social burden—1,700 boys, without funds and without jobs, "were being bagged by the police and put in jail." As a result, the social agencies combined to develop the Community Boys' Lodge. This Community Boys' Lodge took care of 1,489 boys in the twelve months to Oct. 31, 1932, and of this number 51 were under 16 years of age.

In October, 1932, the Southern Pacific Railroad reported that it was carrying 2,500 transients a week. Formerly the railroad police would drive off the few tramps who emerged from the "jungles" and boarded the empties at the water tank; now the freights



swarm with so many—often 200 or 300—that extra cars are put on to avert accidents and help prevent the raiding of sealed cars and the stealing or destroying of freight. Other Western railroads are having similar experiences.

But apparently the situation in Eastern cities is different. The Salvation Army in Omaha reported on Dec. 7, 1932, that of the 625 transients each night at their Homeless Men's Bureau not over 10 per cent were under 21, while the number between 15 and 18 received during the year "could almost be counted on the fingers of one hand." Moreover, the divisional commander said: "I cannot understand just where this army of wandering boys can be. We certainly haven't seen any of them through our institution." A similar story came from Chicago, where "the boys \* \* \* are wandering into the South and West and comparatively few are coming in to stay." A recent report from the Chicago Clearing House showed that only 1 per cent of the 6,800 men registered were under 21.

For the six months ending Dec. 1, 1932, the Cleveland Boys' Bureau reported a total registration of 694 boys from 15 to 21 years of age. Of these, 137 were Negroes and 457 white, but, the secretary added, "we have always felt that a great majority of the transient boys that came into the city never contact the agencies." He estimated that the increase in 1932 over the preceding year was less than 25 per cent.

The Cleveland Boys' Bureau is under the auspices of social service agencies to which boys are referred by the Central Registration Bureau. At the Boys' Bureau a case worker interviews and records their story, analyzes their problem and refers them to the proper agency for housing and food. The boys are persuaded not to continue their journey, but to remain in Cleveland, and meantime a thorough investigation is made. If possible, they are returned home; if

not, other provision is made for them. All boys are given a medical examination. Boys suffering from venereal disease—and a considerable percentage are infected—are not admitted to the Boys' Bureau or the Wayfarer's Lodge, but are asked to move on without anything further being done for them. However, plans have recently been completed to arrest such boys for vagrancy and to commit them to the workhouse, where they will receive proper care and medical treatment and be discharged when no longer a menace to the community.

In New York City reports are constantly being printed that 6,000 or 7,000 homeless boys are wandering the streets; that 500 boys sleep every night in certain stations of the new Eighth Avenue subway; that 100 boys sleep in the corridors of the Lexington Avenue subway at Thirty-third Street; that scores of hungry boys are without any care or service from social agencies. Although the number of homeless boys is steadily increasing and has reached serious proportions, the 6,000 said to be in the city at present—this is being written a couple of weeks before Christmas—represents the total number registered at the Central Registration Bureau during 1932. Many were in the city for only a day or two at most, so that the figure has no definite relation to the number in the city at any one time. On the other hand, many boys doubtless spend several days in the city without registering at the central bureau or with any agency.

No boy in need of food and lodging is neglected if he can be located. The three principal avenues for registration open to him are the Municipal Lodging House, the Central Registration Bureau itself and the Children's Aid Society's Newsboys' House. The Municipal Lodging House does not take in boys under 21, but refers them to the Newsboys' House. Here the boy finds himself with others of his own age in a place where the entire equipment is designed with the boy's needs

and tastes in mind, and where he does not come in contact with contaminating influences which an older and more hardened group might offer.

The Municipal Lodging House reported that 1,120 boys without funds applied for lodging and were referred to the Newsboys' House during the first eleven months of 1932. The Central Registration Bureau acts merely as a clearing house. During the first eleven months of 1932 the Newsboys' House provided food, shelter and friendly encouragement to 2,500 boys. A few younger boys were also cared for by the Salvation Army along with thousands of men.

After a short stay at the Newsboys' House, many boys are sent home with the cooperation of the Travelers' Aid Society. Most of them are not homeless, but wanderers, and their chief fear is that they will be sent home. This explains why, when the Municipal Lodging House sends five or six boys to the Newsboys' Lodging House of the Children's Aid Society, only one shows up; the others simply "blow."

While it is important to learn, if possible, how many American boys are away from home, footloose, subjecting themselves to original and independent experience which will either add to their equipment for a life of self-reliance or else, as seems more probable, sap their vitality and initiate them into a life of dependence, shiftlessness and crime, the more serious problem facing society is how to deal with an age-old phenomenon which today threatens to assume such dimensions as to become a real menace to the established social order. Certain definite experiments are being made. The Wisconsin public school system is trying to meet the needs of boys just out of high school and without means to go to college by providing post-graduate courses with special occupational features, university extension work by correspondence and so on. In Wilmington, Del., the Provident Aid operates a deten-

tion home where boys are lodged and fed until arrangements can be made to return them home—if they will go.

The Salvation Army in Jacksonville, Fla., has established a farm about five miles outside the city to provide temporary employment for boys and a recreation club for entertainment during evenings. A recent statistical report from Jacksonville contains much interesting information about transients. In the year ending July, 1932, the Transient Service Bureau cared for a total of 7,470 men; of these 1,498 were under 20. Many of these transients were well educated; 2,604 had attended high schools or were graduates of high schools while 405 were college trained. Representing 103 different trades, they came from every State in the Union with the exception of Vermont and Nevada.

The Chicago Council of Social Agencies recently reported that it was "trying to approach the needs of these boys from both the housing angle and that of making more adequate provision for their leisure time." The Illinois Children's Home and Aid Society recently secured a fund from the Illinois Relief Committee to pay for care in foster homes for older boys who were above juvenile court age (17) but were still too young to be self-supporting.

In Atlanta attempts are being made in cooperation with four other cities of Georgia to take care of transient families and wandering boys. Instead of the usual "unclean jail cells and watery soup" these people are provided with "clean lodging quarters, substantial and well-prepared food, opportunity to bathe oneself and one's clothing \* \* \* as an inducement to be respectable."

The service provided by the agencies in Los Angeles is of so high a character that it has recently been praised as the only city giving constructive attention to the needs of transient boys, a distinction, however, which many cities must share.

Perhaps the methods employed by

the New York Children's Aid Society as a result of its eighty years' experience with homeless boys will illustrate the type of work being carried on in a number of cities. New York for years has been the Mecca for young people. Tales of poor boys who have made their fortune there have been broadcast throughout the land. Youth is always optimistic and naturally boys who have come from great distances believe that in a city of 7,000,000 there is room and a job for one more. Arriving in the big city they find, like many a footsore traveler before them, that the gigantic buildings and gayly lighted streets lose their splendor when viewed on an empty stomach; they find also that the signs "No Boys Wanted" are as numerous there as elsewhere. A large percentage of these youthful travelers have little or no money and have no definite trade. Some lose their courage as chances for occupation dwindle; food becomes scarce and pride is humbled. They disappear, unwilling to admit their failure to their friends or families.

Many come directly to the New York Children's Aid Society on the advice of other boys whom they have met on the road. Others are found sleeping in the parks, on the piers or in the freight yards and are sent by the police to the society's Newsboys' House, and still others are referred to the society by social agencies and interested citizens.

The Children's Aid Society, through its Newsboys' House and its two farm training schools, gives these discouraged, wandering boys the first bit of comfort many of them have had for months. A bath, a physical examination, clean clothes, wholesome food, comfortable beds and a kind word after days of rebuffs are offered by trained workers who realize that kindness is the first ingredient of social service but who do not allow sentimentalism to blind them to the constructive policies required. During November, 1932, 328 wandering boys were

guests at the Newsboys' House. Records show that 75 per cent were from outside New York State.

While the boy is receiving this temporary care his parents or relatives are notified of his whereabouts. They are assured that he is safe and that they need not worry, but are asked to give certain definite information—his age, his reasons for leaving home, and their advice. Often the parents are hurt by these letters and indicate a wounded pride that their boy will do for strangers what he has been unwilling to do for those who have loved and cared for him from babyhood. Sometimes they are frankly relieved and urge that he be not returned home but helped to a foster home and a job. These letters reveal all kinds of tragedies. They tell of the boy who, although his father had planned to send him to college, knew that business was bad and, fearing his father would become insolvent, decided he would at least relieve "the governor" of part of the load he was carrying. Some boys, aware that there was not food enough in the house for all the little mouths and with no work at home, felt that they could render a real service by hitting the trail and sending help back. And there is the boy from a broken home, his emotions so overwrought by the quarrelsome atmosphere that he would have no more of it. Finally, there are the lazy, disobedient, mentally subnormal or actively delinquent boys who have escaped from their communities to avoid detention.

After learning all that is possible by correspondence and by study of the boy, arrangements are made, if he will go, to send him home; if not, attempts are made to find him a job. If the boy shows any inclination for rural life or rural work he is sent to one of the farm training schools. Here he may receive expert instruction in agriculture, or, if a love of mechanics seems to dominate, he is given instruction in furniture repairing, building, automobile mechanics, plumbing,

painting and other trades. The two farms care for about fifty boys at a time and as soon as they are sufficiently trained to earn wages they are passed on to farms in the State.

Helpful as these philanthropic plans may be to aid individuals in distress, to provide food and lodging for the hungry and homeless and to rescue them from incipient vagabondage, they are inadequate to meet the need. Fundamental causes must be studied and society itself must develop the courage and mechanism to deal with them. One must know why boys leave home. Why are they weary of school? Why do they tire of their own farm, village or city environment? Why do they not settle down to a steady job on the farm or in the village store or factory or city office? What gangsters, racketeers or knights of the road are their idols as they hitch-hike from coast to coast, ride the rods, or, after a comfortable night of rest in some farmhouse for which they are to pay in labor on the morrow, sneak out at daybreak with the farmer's watch and money and lose themselves again in the army of vagabonds? Only to ask these questions is to visualize crowded tenements, domestic tyranny, whining infants and nagging mothers—the domestic background from which many have fled to find refuge anywhere, everywhere, except in the home.

Some credit must be given to youth with its overwhelming motive of inexperienced generosity which determines a boy to remove himself from the burden that breaks his parents as business fails, employment ends and the wreck of the meager family fortunes approaches with the certainty of doom. In part here is a challenge to a social system which in times of prosperity educates youth at an early age to make fewer mistakes and more money for some one else and then, in times like the present, tells the boy who has thus prepared himself, "we have no place for you." Finally one must recall that from platform, pul-

pit, newspaper and broadcasting station Americans have so dignified the racketeer and so pathetically confessed their inability to cope with him that he has become the model for boys who are lazy, shiftless, dishonest, cunning, or who have become convinced that society owes them a living and that without serious effort they can impose on public good-nature and private generosity while they live a life of independence, comparative ease and freedom from all responsibility.

The present depression aggravates every normal motive for wandering. Young people just out of school do not know which way to turn. Ordinarily they could find some kind of job or continue their education. Industrial stagnation has closed the first door, poverty the second.

American youth is on strike. Too inexperienced to draft a bill of grievances, they have walked out. If we expect them to return home, if we hope to end the recruiting of the vagrant horde, we must set our house in order. We must provide wholesome recreation, education and facilities for cultural development. Better housing and the abolition of slums, decent living conditions in agricultural communities, an enriched school curriculum, parks, playgrounds and social clubs can make the "home town" more attractive to a normal youth than any other place. Decent standards by "big brothers" of business and politics will prove an effective antidote to the glorification of bootleggers, second-story men and other racketeers. But not until America gets back to work will the youth, who comes with eager enthusiasm from high school or college, offering to society his keen, alert abilities, find a welcome for the utilization of the precious things he has to give. The problem is confessedly difficult, but it is not mysterious. Only by repairing those economic, political and social defects of which we are already aware may we hope to demobilize the army of youthful vagabonds.



# The New Education in Italy

By HOWARD R. MARRARO

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ONE of the great achievements of the first decade of Fascist rule in Italy has been the overhauling of the nation's educational system by means of a series of reforms. How important these reforms are can be appreciated if it is recalled that until 1923 the schools of Italy were administered under the Casati law of 1859, which established a system of public instruction for Piedmont and Lombardy. As the rest of Italy became united with the kingdom of Piedmont and Sardinia, the Casati law was extended throughout the nation. Although the law was revised by succeeding Ministers of Education, no serious effort at improvement was made until May, 1915. Then the economic and social upheaval caused by Italy's entrance into the World War led to a sharp scrutiny of the traditional system of education and to proposals to remodel it for the purpose of making it serve more fully the actual needs of the nation. But again the results amounted to little.

Immediately after the war Italy experienced a wave of communism, which for a time threatened the safety of the State. The government under Prime Minister Giolitti, being powerless even to maintain order, committees of citizens sprang up in the name of Italian patriotism to combat the prevalent lawlessness and thus pave the way for fascism. The Fascists on

assuming power initiated a series of far-reaching reforms, and of them none was more important than the creation of an educational system that would be formative rather than informative and that would develop not only intellect but also character and give Italy schools which would be imbued with the national spirit. Although to the careless or prejudiced observer this new school system may seem excessively nationalistic, the same thing may be said of education in most other countries, including the United States. All modern nations, in fact, use the school as an agency of patriotic propaganda.

The reform of the Italian schools began in October, 1922, when Prime Minister Mussolini appointed Professor Giovanni Gentile, the philosopher, to the position of Minister of Public Instruction. As the chief exponent of a philosophy based on a fusion of Neo-Hegelian idealism and ardent Fascist nationalism, Gentile believed that the school should be employed to strengthen the nation and make good Italians; that the true aim of the school must be the formation of a patriotic mind and heart and the preparation of the student for the manifold responsibilities of life. The importance of Gentile's educational reforms is, therefore, not to be found in the mere substitution of adequate for inadequate school ordinances, but in the expression of a new cultural and spiritual trend in Italy.

The system which Gentile was called upon to reform was defective from almost every point of view. The administrative organization was loose; discipline among teachers was unsatis-

factory; there was an insufficiency of schools everywhere; and attendance was only 65 per cent of the enrolment. The first task was to establish a strong and efficient system of administration. Since education is a State function and exists in the interest of the State, all educational activities are centralized in the Ministry of National Education, headed by a Minister who is appointed by the government. To the Minister is given more power and responsibility for educational progress than to any single school executive in the United States. In him is vested the responsibility for the organization of the entire school system. Under his direction suggestive courses of study for all schools are prepared, and through supervisors appointed by him, their use is enforced.

To support this administration the Fascist Government has gradually increased the appropriations for the Ministry of National Education. From a total of 975,095,000 lire in 1922-23 they rose to 1,434,501,000 for the fiscal year 1929-30, an increase of 47 per cent. This increase becomes all the more significant when it is remembered that the total Italian budget during this period was reduced 15 per cent.

A fundamental difficulty for Italian educators has been the widespread illiteracy among the people. While between 1871 and 1923 the kingdom of Italy reduced illiteracy from 69 per cent of the population to 27 per cent, 10,800,000 individuals over six years of age in 1923 were unable to read or write. The illiteracy statistics of the 1931 census have not yet been published, but careful estimates made in 1927 showed that the percentage had been reduced to about 21 per cent. This means that during the first four years of the Fascist régime a total of 2,400,000 Italians had been taught to read and write. These results have been achieved in spite of numerous difficulties, especially in Southern Italy, where geographical conditions and

scarcity of large urban centres have added to the complexity of the problem. The question was mainly one of dealing adequately with the rural districts and with a population of peasants, shepherds, fishermen and the like, who considered reading and writing a luxury. In many instances parents employed every possible means to prevent attendance of their children at day or evening schools, even going so far as to destroy school books. More important, then, than the opening of schools in these districts was the need of stimulating a desire for education. The government has been most generous in increasing the number of day schools for children and in establishing evening schools for adults in the rural areas. The compulsory school attendance law for children from 6 to 14 years of age is now strictly enforced as may be seen from the fact that over 91 per cent of the children of school age were in attendance at school in 1929-30, as compared with 65 per cent in 1922-23.

But the essence of Fascist educational reform does not lie exclusively in the provision for schools; the complete change of spirit is perhaps more important. Before the Gentile reforms the elementary school curriculum was dominated by one aim only—the imparting of a minimum of information in the fundamentals of education. The elementary school, which provides the only training for the vast majority of the people, now aims at giving an education that, though simple and limited, is also complete and organic. It does not, therefore, confine itself to the teaching of the “three R’s,” or, to quote the words of Gentile, “to any other material that is a mere ornament or adornment of the intellect.” Since the intellect, according to Gentile, can be developed only by developing personality, the school aspires to raise immature and untrained minds to the realization of the all-important problems of the moral world. The hope is to make children, within the limitation of their years,

feel and enjoy the values of reality, and widen their spiritual horizon so that they may with greater awareness and confidence adjust themselves to the world in which they live.

In order to achieve this end religious instruction has been introduced and artistic training has been greatly emphasized. Religion and art are, indeed, the fundamentals of the new elementary school. Even a rapid examination of the new school programs will show that the entire curriculum has a decided artistic tendency. Conceiving art as the immediate expression of individuality, Gentile insisted that the child, by nature an artist and a creator of his own phantom world, be encouraged to satisfy to the utmost the need of translating his growing personality into imaged reality. As a result of this policy the Italian school child is no longer confronted with methods which he is required to follow mechanically and monotonously; he learns penmanship without the use of those models which formerly compelled all pupils to write alike and without any individuality; he no longer has set themes to work out, nor is he obliged to write about something of which he knows nothing and which has no interest for him. Now he writes when he wants to, and when he feels that he has something to say, and these spontaneous compositions may take the form of diaries or of reports of his everyday life in and out of school. In his drawing class he no longer reproduces lines and shadows from a design; he is told to draw from life, to put down what he actually sees or what he imagines, and if he wishes to do so he may draw pictures to illustrate his own diary. In short, the aim of teaching is to encourage the child to do things by himself, to work out his own thoughts and thereby gradually mold a personality distinct from that of his fellows. This means that he will be prepared to go out into the world with well-formed habits of ini-

tiative and independence, equipped not merely with the tools of reading and writing but endowed with a keen awareness of his attainments and with the confidence of one who knows his powers and limitations, and consequently his own place in the world.

Another important feature of Italian education is the emphasis upon physical training. Breaking with Italian tradition, Professor Gentile has stated that a complete and perfect system of education should aim not only at the development of the spirit but of the body as well. But the teacher of physical education "must always bear in mind that he is not dealing with *bodies*—bodies to be moved around, to be lined up, or rushed around a track. He, too, is training souls, and cooperates with all the teachers in the moral preparation and advancement of mankind." In the old days physical education in the schools lacked purpose and adequate teachers; in many communities it was entirely neglected. To remedy these defects the government in December, 1923, established the Ente Nazionale per l'Educazione Fisica, an organization which had full charge of the physical training in the schools. But because of insufficient resources the results were not satisfactory, and in October, 1927, the Ente was merged with the Opera Nazionale Balilla for Physical Education, which the government had established in April, 1926. The Balilla organization was placed under the direct supervision of the head of the government and under the control of the Ministry of National Education. The organization, with headquarters in Rome, carries out its functions through the medium of the Balilla for boys from 8 to 14 years of age, the Avanguardisti for boys from 14 to 18 years of age and the Piccole Italiane and Giovani Italiane for little and young Italian girls. The organization is maintained by members' subscriptions, by bequests and donations and by appropriations from the budg-

ets of the Ministries of the Interior, Education and Corporations.

Besides controlling physical education in the schools, the Balilla is responsible for many of the activities which in America and in other countries are conducted by the Boy Scouts, the Girl Scouts, the Camp Fire Girls and similar organizations whose purpose is general character training and civic education. Furthermore, the Balilla provides continuation schools, vocational education and adult education; it has opened reading rooms and circulating libraries. Visits to the great museums and monuments of the country are fostered by the Balilla and competitions for prizes and scholarships are organized. It conducts cruises in the Mediterranean to the colonies and other places. It promotes physical and athletic activities and it maintains Summer camps and athletic fields. The Balilla also provides its members with medical and preventive treatment and accident insurance. At the present time there is a movement afoot for the construction of Balilla clubhouses to be used as educational and recreational centres. It is not surprising then that the Balilla movement, which provides outlets for the youthful love of activity, ceremonies and parades, has spread throughout Italy and now has a membership of about 3,000,000.

Practically the only objection to the Fascist system of education has come from the Vatican. The use of the schools to enlist all children into the Balilla organizations led to a disagreement between Premier Mussolini and the Pope, which came to a head on Dec. 31, 1929, when Pius XI issued an encyclical against secular education and the State monopoly of education. The system of Catholic education which the Church has been developing for centuries has now been replaced in Italy by a Fascist education which, though Catholic, is independent of Church control. The Church schools and youth organizations have been

absorbed into the government's own system despite the Church's protest. Mussolini and his educational authorities have stuck to their purpose of nationalizing the schools.

Students who do not propose to go to a public or private high school must remain in the elementary school until after their fourteenth year. The regular elementary school course is for five years, but on its completion students must continue in the special three-year vocational schools, which were established in November, 1930. The cultural course of study in these includes Italian, history, geography, a modern language, mathematics, the different physical sciences, hygiene, drawing, penmanship, physical education, religion and singing. The vocational schools provide courses in agriculture, applied sciences, technology, construction, weaving, mining, domestic economy, bookkeeping, stenography, typewriting, business correspondence in a foreign language and commercial practice.

The Italian secondary schools required more radical reform because, more than any other part of the educational system, their organization was defective and their studies sterile. Reform of secondary education had to consider the relationship of those schools to the elementary schools and to the universities as well as the whole question of internal structure and educational methods.

The secondary schools are now classified as follows: the technical institute, the classical gymnasium-lyceum, the normal institute and the scientific lyceum. The entire course in each branch covers eight years, except in the normal institute, where it is seven years. While the scientific lyceum course is for four years, students must have completed the first four years in a gymnasium, technical institute or normal institute before they can be admitted. The technical institute prepares students for surveying, accountancy and administrative and



business positions; the normal institute trains elementary school teachers; the classical gymnasium-lyceum educates students for the four university faculties and for the higher institutes, while the scientific lyceum prepares students for the faculties of science, medicine and surgery and for the schools of engineering, architecture and pharmacy. Admission to all public secondary schools is based on an entrance examination which is the same for all children, whether or not they have attended a public or private elementary school. The only requirement is that a student must be at least ten years of age before he is allowed to take the examination.

An important result of this system of entrance examinations is the limitation of the number of students in government schools. In fact, since the law fixes every year the maximum number of students in each public institution of secondary grade, the private institutions have become important. The government instructs only the best among the secondary students and turns over to the private schools the large number of those who are considered unfit to be educated by the State. The educational authorities explain that the State is obliged to provide elementary instruction for all children, but that the State should provide secondary and higher education only for those who deserve it. Students from private high schools are examined by the State school authorities in order to receive credit for their work. The examination for private and public school children is the same, but at these examinations students from private schools do not make as good a showing as do those from government schools.

The total number of students in public secondary schools has increased from 115,658 in 1922-23 to 143,643 in 1929-30—an increase of 24.1 per cent. In the private high schools the enrolment has increased from 20,712 in 1922-23 to over 53,000 in 1929-30—

155.8 per cent. Of the total 1929-30 registration in public institutions 101,261 were boys and 42,382 girls; the enrolment in the classical gymnasium-lyceums was 75,443, in the technical institutes 37,726, in the normal institutes 24,372 and in the scientific lyceums 6,102.

The chief value of the secondary school reform is, however, not to be found in statistics; it is to be sought rather in the complete and profound change in the spirit of the teaching. Formerly the school imparted textbook information and crammed the student's mind with the greatest possible number of simplified and catalogued notions; the new programs aim to educate by direct acquaintance with the masters of thought and of art, thus doing away entirely with the old manual that provided the student with ready-made knowledge to be passively accepted. While giving greater impulse to professional training, the secondary schools emphasize the humanities and the liberal studies. Hence the stress laid on the more specifically formative subjects. Latin and the classics are studied in all types of secondary schools. Philosophy is given more importance, while new subjects, such as religion, political economy and the history of art, have been added to the curriculum. There has also been more diversification in the study of modern languages, and English and German have grown at the expense of French.

The changes introduced in the universities by Gentile constitute a milestone in the history of Italian higher education. Before the reform all the universities were alike in form and content, having the same faculties, the same subjects, the same requirements for degrees and the same administrative system. Today each university possesses a distinctive and independent personality. Each is now empowered to determine the number and the nature of the schools, institutes, libraries and so on that it needs; each

is authorized to decide upon its own program of studies; each is empowered to administer its income in the manner best suited to its particular purpose.

The chief effect of the Gentile reform is that the State undertakes to support only such faculties, schools, libraries and clinics as it deems necessary. The others are not suppressed, but must shift for themselves. The universities are classified as follows: (1) Ten universities wholly supported by the Italian Government; (2) eleven universities supported in part by the national government and in part by either provincial or municipal contributions; (3) five so-called "free" universities or institutes, entirely supported from provincial, municipal or private sources. The total number of students in all universities and institutions of higher learning was 44,640 in 1929-30, as compared with 41,892 in 1922-23.

Each faculty or school determines the number of subjects for which students must register each year, the yearly examinations and the form of the examination for degree or diploma. Students enjoy considerable freedom in their studies. They are no longer compelled to pass examinations in prescribed subjects, but are expected to fall back upon their own initiative, choose the courses they want, make up their schedules in accordance with their intellectual aptitudes and in view of the scholarly and scientific ends they wish to attain. Each faculty or school usually recommends a program of study for each year, but students are permitted to make any changes in the program, provided, however, that they pursue a certain minimum of subjects which constitute a properly organized program. The degrees and diplomas conferred by universities and institutes do not qualify, as formerly, for the practice of any profession, but must

be supplemented by licenses granted after passing State examinations.

There is one important difference in purpose between the American and the Italian systems of higher education. The American university gives a more completely rounded and balanced individual to society, whereas in Italy, as in other European countries, the institutions of higher learning, concerned more with intellectual development, pay little or no attention to the students' social and physical needs. The average Italian university graduate is thus a better scholar than the American college graduate, but is often in poorer physical condition and less at ease in different kinds of society.

The educational reforms introduced by the Fascist Government during the ten years of its existence are far-reaching. It is enough to read the history of Italy since 1815 to regard with intense sympathy her struggle for nationhood. After fighting for the right to become a united nation for more than fifty years she began her effort to build a nation from a heterogeneous population that was more than 75 per cent illiterate, with no money, no industry, no railroads and very limited natural resources. In spite of the shock of the World War and the series of economic and social disturbances which followed, the Italians have reduced illiteracy to 21 per cent, and they have created a school system which endows the new generation with energy of thought and will, and seeks to develop a culture that truly represents the manifold powers of the Italian race. Because Fascism exalts and ennobles those qualities which assure the greatness of Italy, and since the problem of its greatness is above all a problem of education and culture, Mussolini has rightly defined Gentile's educational reforms as "the most Fascist of all the Fascist reforms."

# The Passing of Calvin Coolidge

By E. FRANCIS BROWN

CALVIN COOLIDGE, thirtieth President of the United States, died suddenly on Jan. 5, 1933, at the New England home where he had lived in quiet retirement since he had left the White House, nearly four years before. Despite his sixty years he had seemed so young and vigorous that the nation was little prepared for the news that he had gone. Immediately it awoke memories of an era that is past; and those memories stirred reflection upon the man whose name was most closely associated with the happy days before the depression.

By birth and heritage Calvin Coolidge belonged to the traditional America of equal opportunity for all. During his threescore years he spanned the gulf that separates a log cabin from the White House, except that in his case he had been born in a simple Vermont farmhouse. He was the son of parents whose circumstances were modest, but not too slight to send their boy to the academies that were typical of Vermont in the late 1870s and early 1880s. Amherst College followed in due course. Unknown when he entered that institution's classic halls, at the end of his course in 1895 he was still a stranger to most of the students contemporary with him.

An eventful life lay ahead for Calvin Coolidge; yet it would be long before men realized that the red-headed, awkward, taciturn Amherst graduate possessed abilities which raised him above his fellows. After Amherst, he read law in Northampton, Mass., the little city which was to be the scene of his early success, to which he was to return at the end of his career and where he was to die. But when he began the practice of law there in 1897

it must have seemed to most of the other citizens and perhaps to himself that he was destined for the life of a country lawyer whose honorable but not very lucrative practice would be concerned chiefly with drawing wills, proving titles and appearing in unimportant cases before the county court. Like many another young lawyer, however, Coolidge began to dabble in politics and politics became his life. For ten years he played a minor rôle in his adopted city, and then, in 1907, he was elected to the Massachusetts General Court, where he arrived bearing the recommendation that like a singed cat he was better than he looked. Two terms as Mayor of Northampton followed and thereafter he devoted himself to the service of his State. He played the game according to the rules, courageous in standing for what he believed to be right, yet never attempting to swerve far from the paths established by tradition. Endowed with a goodly amount of horse sense, he appealed to politicians as the sort of man whom they could trust and as the type who was almost certain to bring in the votes they wanted.

Several years in the Massachusetts Senate were rewarded with the post of Lieutenant Governor of the State, and in Massachusetts the Lieutenant Governor almost inevitably is promoted to the Governorship. Coolidge was not to be the exception that proves the rule; in 1918 the people of the Old Bay State made him their Chief Executive, and the following year re-elected him by a tremendous majority. The small-town lawyer had done well. Still under 50, he had many years of work ahead, presumably in politics.

What would the next step be? Perhaps a Senatorship in Washington would not be unattainable, or at least a seat in the lower house. But it was to be far otherwise.

There may be people who know what was in Coolidge's mind during the years he was Governor of Massachusetts, but they have maintained silence. That his ambitions had not been satisfied by his success in Massachusetts can be assumed, and men there were in Northampton who in those years declared that Coolidge had his eye on high places. Possibly; in any case, a lucky accident which he and his advisers knew how to capitalize determined the future.

In the late Summer of 1919 the police of Boston went on strike, and for a few hours the Massachusetts capital was the scene of rioting and looting. The strike had long been pending, but Governor Coolidge had done nothing to prevent it, although once violence appeared in the city he quickly supplied the troops asked for by the Mayor of Boston. Whether the credit for putting an end to the disorders belonged to Coolidge or not—and there are many who deny him that distinction—his action in that crisis made his reputation, and his statement that "there is no right to strike against the public safety by anybody, anywhere, any time," was repeated up and down the land.

For a long while Coolidge had been guided and advised by W. Murray Crane, Massachusetts political boss and United States Senator. Crane in 1920 was close to death's door, but he attended the Republican National Convention, and as almost the last act of his life threw the nomination for Vice President into the lap of Calvin Coolidge. Or so it seemed, because Crane, without openly supporting Coolidge, expressed no surprise when his protégé received the nomination. The country knew almost nothing about Coolidge—it never does about its Vice Presidents—but it mattered little, and if in retrospect the

Harding-Coolidge ticket seems incredibly weak, it must be recalled that one had only to be a Republican to win in 1920. So Calvin Coolidge went to Washington, took a suite at the New Willard, and accepted the prospect of four uneventful years, to be spent presiding over the dreary, interminable sessions of the Senate.

But his experience as the presiding officer of the Senate was brief. On Aug. 3, 1923, Warren Harding was dead and Calvin Coolidge by the light of a kerosene lamp in his father's farmhouse at Plymouth, Vt., had taken the oath as President of the United States.

After the elections of 1924, Coolidge was President in his own right and the United States settled down to an interlude of unprecedented prosperity that eventually ended in an orgy of extravagance and speculation. For most of this the President had little responsibility, but his public statements on business conditions and the commercial outlook of his whole administration did nothing to restrain the madness which seized the American people. Simple, frugal, honest, Coolidge appealed to his fellow-citizens as the embodiment of the virtues to which they gave their respect but not their service. A man of dry wit, the source from which sprang endless anecdotes, reserved and reticent, he soon became, with the aid of astute publicity, the most popular President since Theodore Roosevelt.

His stalwart honesty ever stood him in good stead and never less than when the corruption of the Harding administration came to light. Whether or not he had been aware of what was going on under his very nose probably will never be known; certainly both as Vice President and President he kept his own counsel and the public assumed that he had seen and heard no evil. In Coolidge the people of the United States saw a man on whom they could rely and that certainty gave him added strength at a time when the country's confidence in its



leadership had been rudely shaken.

The Coolidge administration covered six fat years, years of ease and pleasure for many Americans. As men, flushed with a new affluence, discovered the possibilities of foreign travel and sought to make golf the national sport they were delighted to see that the Chief Magistrate of the nation was likewise able to enjoy himself. They followed him in all his vacations and were pleased when, even as one of them might, he donned the bonnet of an Indian chieftain and posed for the rotogravure pages of the nation's press. Thanks to his charming wife, the White House under President Coolidge became a gayer place socially than it had been for many years and this fact also redounded to his personal popularity.

Yet the Coolidge years from the vantage point of 1933 seem indeed barren. Political and economic forces were at work in the world which were to bring eventual ruin; some men foresaw the catastrophe, but not Mr. Coolidge. In American life there were evils far more obvious than in the world as a whole, but Mr. Coolidge did nothing. If he understood modern economics it was not apparent. Economy in governmental operation, reduction of the national debt and a lowering of taxes, expansion of foreign markets and loans abroad—these were the sum of his economic policies. As far as possible, also, he kept the Federal Government from meddling with social questions, while in foreign affairs he followed a policy of drift and mastery.

His long apprenticeship in politics had made him one of the most clever political leaders who ever held the Presidency. He knew how to win and keep the support of important men in his party, and if he was not always happy in his relations with Congress it was in part because the Republican ranks were somewhat open and disaffection had crept in. But greatest of all was Calvin Coolidge's shrewdness in judging the sentiment of the coun-

try. Disillusioned by the events which followed upon the triumph of progressivism, the people had turned to reaction and conservatism. No longer did the words of the social gospel fall upon open ears. Men wanted to make money, to enjoy life, to forget that behind the façade of rich cities were poverty and misery. Economists said that the nation had become industrialized; as a result, industrialists and bankers made themselves believe that the woes of the great farming areas could be ignored because they were unrelated to the nation's economic well-being. Perhaps it required no gift of second sight to realize that what most Americans wanted was to be left alone; Calvin Coolidge comprehended that popular will and bowed to it. It was fortunate, because a vigorous administration of achievement, of directing the forces in American life would have been impossible for Coolidge.

In his death, as in his life, Calvin Coolidge was strangely apart from the life of America. When he died, despite the fact that his Presidency was but four years behind, he seemed to belong to an era that was already far, far away. The years of his administration resembled 1933 hardly more than those in which Chester A. Arthur occupied the White House. The America of Calvin Coolidge died before him, and that he had survived into a time that was not his was never more apparent than in the words that were spoken and written when he passed away.

Yet in another sense the America of Calvin Coolidge disappeared long before he became a national figure. A Yankee by birth and training, a man without wide experience, he typified the New England in which he had grown up and won his reputation. But that very New England, in many respects, was outside American life. Ever a distinctive section, it retained much of its provincialism while the rest of the nation sank local differences in the flood of twentieth cen-

tury civilization. Many of the industrial and agricultural problems of New England were peculiar to that region alone. Social traditions in that rocky, rugged region were more fixed than elsewhere in the United States and many of the virtues of the Puritan were still accepted and practiced. By necessity the New Englander has been thrifty and has led a simple life; he has possessed a moral courage that enabled him to adhere to his ideals, however worthy or unworthy they may have been; about the Yankee has been woven a traditional cloak of sour taciturnity which seemed to typify the bitterness of the life his section forced upon him.

Such was the background of Calvin Coolidge, and from it he brought thrift, simplicity, courage, taciturnity and honesty, but also a certain narrowness of purpose. To an America that had turned its back upon the principles of Calvinism, Calvin Coolidge and his ideals were an anachronism. Yet he was loved because of that, perhaps because in him men and women saw their fathers and mothers who had likewise held to these Coolidge virtues which seemed so out of place in the 1920s. Deep in the heart

of America there abided the precepts of *McGuffey's Readers*, and when Calvin Coolidge uttered a platitude upon the way of life it awoke pleasant memories of old teachings—of course, they were not to be taken seriously. Meanwhile, the government kept its hands off business and the privileged classes enjoyed the prosperity that would never end.

Fate was kind to Calvin Coolidge; his admirers can only hope that history will be likewise. By steady work in the right circles he gained political preferment in his own State, and then the Vice Presidency of the nation. Fate brought him to the White House and permitted him to occupy it during the only period in recent American history when his qualities answered the need of the American people. Perhaps it was fate that kept him from being besmirched by the Harding scandals; perhaps, again, it was fate that held off the economic débâcle until he had left the White House and then prevented public resentment being visited upon his head. Possibly, also, fate was kind in bringing the life of Calvin Coolidge to a close before history pronounced its verdict.

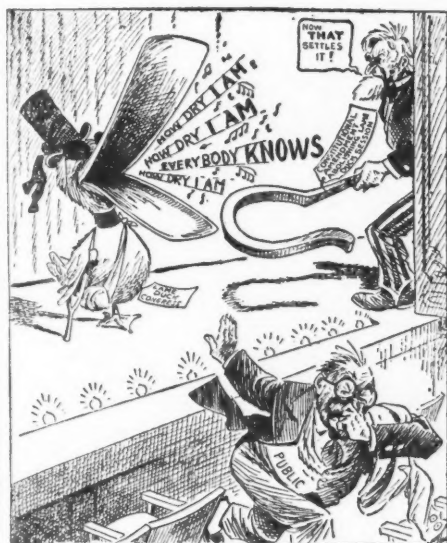
## Current History in Cartoons



The path to repeal  
—*Richmond Times-Dispatch*



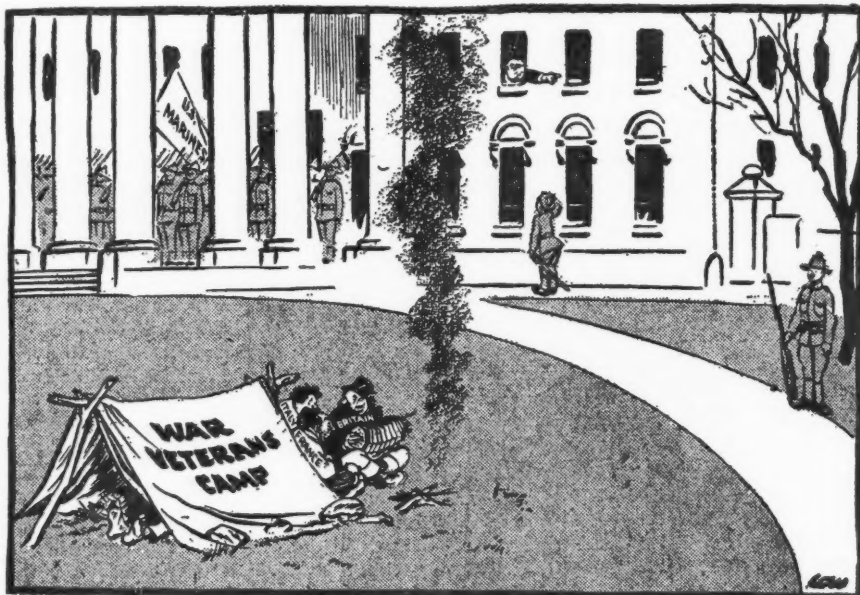
The return of Enoch Arden  
—*New York Herald Tribune*



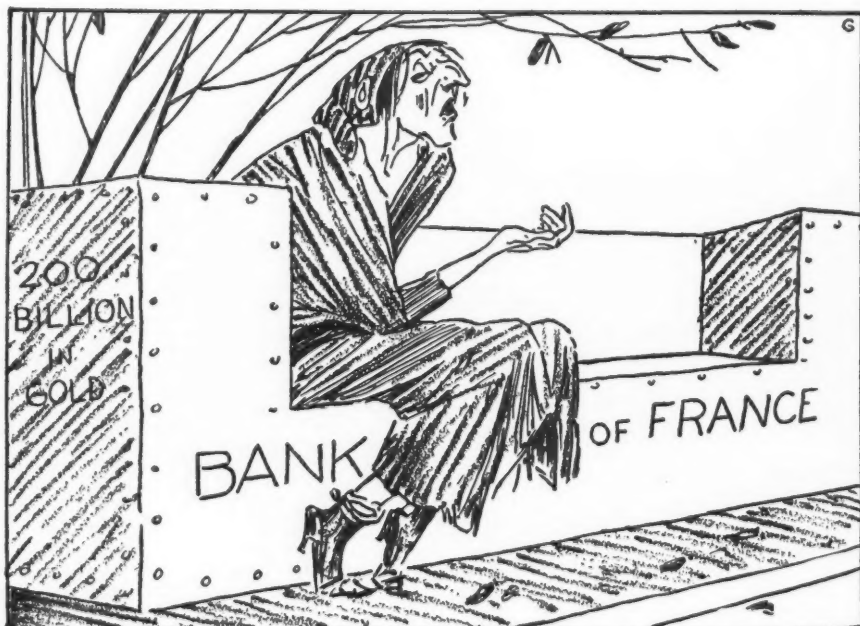
His swan song  
—*Birmingham Age-Herald*



Another "little group of willful men"  
—New York World-Telegram



More trouble outside the White House  
—Glasgow Evening Times



France—"I have paid out my last penny. I am as poor as a church mouse."  
—Kladderadatsch, Berlin



MEYER  
FLAMMANG



Japan—"I want to register my child, Manchukuo. I am the father. It has no mother"  
—Kladderadatsch, Berlin



It smells like oil down there  
—Notenkraker, Amsterdam



"Ssh! What do you think he's thinking?"

—Glasgow Evening Times



Scene at a Persian fountain

—Pravda, Moscow



Steadfast, steadfast!

—New York Evening Post

# A Month's World History

## The War-Debt Controversy

By JAMES THAYER GEROULD  
*Princeton University; Current History Associate.*

THE controversy over war debts, as described in the January number of *CURRENT HISTORY* (pages 413-419 and 453-456), was carried a stage further by the reply to the British note of Dec. 1 sent by Secretary of State Stimson on Dec. 7. It opened with an admission that "it is clear that, in the present conditions of world-wide depression, accompanied by a sweeping fall of prices, their weight has been greatly increased, and that they have a very definite relation to the problem of recovery, in which both the British and the American people have so vital an interest." The President was prepared therefore, "in co-operation with the British Government, to survey the entire situation and to consider what means may be taken to bring about the restoration of stable currencies and exchange, the revival of trade and the recovery of prices. \* \* \* Such an examination does not imply cancellation," but compensation through "expansion of markets for products of American agriculture and labor," and a relief from the burden of competitive armament.

The American reply further rejected the British contention that the goods purchased with the loans were destroyed by the war, and were consequently unproductive, and that the debt payments had upset international exchange and the proper distribution of gold, and it was denied that the United States was committed to re-

vision in consequence of the Lausanne settlements. The principle of "capacity to pay" which guided the negotiations of the War Debt Funding Commission in 1923 was maintained. "No settlement which is oppressive, and retards the recovery and development of the foreign debtor, is to the best interests of the United States or of Europe." Since this was so, Mr. Stimson was "confident that the Congress will be willing to consider any reasonable suggestion by your government which will facilitate payment of the sum due on Dec. 15."

Secretary Stimson's answer to the French note of Dec. 2, forwarded on Dec. 9, was shorter and less argumentative. "I trust," he said, "that the French Government will see the importance of making the Dec. 15 payment in accordance with its terms; and thereby, in my judgment, bringing about a more favorable situation for any subsequent examination of the problem between our two governments." As in the British note, he committed the government to a survey of the entire problem in which it was agreed to take "into account not only debts but currencies, exchange, revival of trade and recovery of prices, expansion of markets for American products, and progress that might be made toward world recovery through disarmament." Cancellation could not be considered.

Both in London and in Paris, these

replies created what might be called, in diplomatic phrase, a disagreeable impression. Prime Minister MacDonald and Neville Chamberlain, his Chancellor of the Exchequer, crossed the Channel to discuss them with M. Herriot. The French press resented particularly the attempt to link the debts with disarmament, calling attention to the perfectly obvious fact, generally lost sight of in this country, that complete disarmament would not of itself create a single dollar's worth of exchange by which the debts could be paid. In both countries, a strong minority opinion favored a flat default; but, in both, the governments were unwilling to go to this extreme. On Dec. 11, the British Ambassador delivered to the State Department a communication expressing the determination of his Majesty's government to make the payment on the date due, with the understanding that it should be treated, not as one of the annuities under the agreement of June 18, 1923, but as a "capital payment, of which account should be taken in any final settlement." To this Mr. Stimson replied immediately that he could not accept payment on these terms, and that he must assume that the British statement was expressive of a desire rather than a determination. This position was, in effect, accepted in the brief answer dated Dec. 13; and on Dec. 15 gold, to the amount of \$95,500,000, in the vaults of the Bank of England, was earmarked as belonging to the United States.

In the meantime, Prime Minister Herriot, with great tact and skill, was endeavoring to convince a reluctant and rebellious French Chamber of Deputies that, however unjust they might feel the exaction of the payments to be, the honor of France, and the integrity of their own loans, required that they should be made. His speech on Dec. 12 was a masterly one, directed obviously quite as much to ward the public opinion of England and America as toward the Deputies

before him. He asked them to authorize him to pay the amount due (\$19,261,432.50), with the understanding that the sum would be carried to the account of a new agreement. The debate continued throughout the night of Dec. 13 and at 5 o'clock the following morning, a strange combination of the extreme right and left, of the Communists and Socialists with the followers of Louis Marin and André Tardieu, voted, by a majority of 402 over 187, to accept, in place of Herriot's proposal, a resolution in which it was asserted that, because of the Hoover moratorium and the Lausanne agreement, the debt settlements previously made had lost their force. For this reason, the Chamber urged the government to call a conference, in connection with the World Economic Conference, for the purpose of adjusting all international obligations and of putting an end to all international transfers for which there was no compensating transaction. Pending the agreement of the United States to enter such a conference, the payment of Dec. 15 should be "deferred." Within an hour of the adverse vote M. Herriot and his Cabinet had placed their resignations in the hands of President Lebrun.

On the day when the international payments were due, the United States Treasury announced that they had been made as follows:

Czechoslovakia .....	\$1,500,000.00
Great Britain.....	95,550,000.00
Finland .....	186,235.00
Italy .....	1,245,437.50
Lithuania .....	92,386.01
Latvia .....	111,852.12
	<hr/>
	\$98,685,910.63

and that the following nations were technically in default:

Belgium .....	\$2,125,000.00
France .....	19,261,432.50
Hungary .....	40,729.35
Poland .....	3,302,980.00
Estonia .....	266,370.00
	<hr/>
	\$24,996,511.85

Of the sums paid \$31,567,000 was credited by the Treasury as on ac-



count of principal and \$67,118,710.63 as interest.

President Hoover recognized the seriousness of the situation in the special message which he laid before Congress on Dec. 19. After reviewing the causes and character of the present economic depression, the roots of which he considered to be international, he expressed the opinion that the importance of the war debts, "relative to the other world economic forces in action, is exaggerated." The postponement of payments requested by the debtors had been declined, since such a postponement would amount to the "breakdown of the integrity of these agreements," the abandonment of the policy of dealing with the debtors separately, and the recognition that reparations and war debts are related. Postponement would bring no relief, and the American people should not be expected to make further sacrifices without definite compensations. "I will not," the President said, "entertain the thought of cancellation." In order that the situation might be studied, he recommended the establishment of a commission, a part of the membership of which he would select from Congress, to consider the debt settlements and assist in the preparations for the economic conference and in the negotiations for disarmament.

In a long telegram to Mr. Roosevelt, Mr. Hoover on Dec. 17 asked the President-elect to join with him in the selection of such a commission. Since this procedure was directly contrary to his announced policy in dealing, in regard to the debts, through the ordinary diplomatic channels, Mr. Roosevelt felt compelled to decline. As he doubted the expediency of relating so closely the work of the economic and the disarmament conferences, he suggested that the appointment of the delegates should be deferred until after March 4. In a second telegram, sent on Dec. 20, Mr. Hoover suggested that Mr. Roosevelt should designate two or three

prominent Democrats, such as Owen D. Young and Colonel E. M. House, to advise with the present administration "in an endeavor to see what steps can be taken to avoid delays of precious time and inevitable losses that will arise from these delays." Mr. Roosevelt persisted in his opinion that any direct cooperation such as this would be interpreted abroad as committing his administration, and that he could not accept responsibility in advance of the time when he must assume power. He would welcome any exploratory investigations, undertaken in the interim, which might be undertaken by Mr. Hoover. Since the divergence of opinion between the President and his successor was so wide, it seemed unlikely that any positive decisions could be reached earlier than March.

#### GERMANY AND DISARMAMENT

It was, in no small degree, due to the tactfulness and persistence of Norman H. Davis that the exceedingly delicate negotiations which have resulted in the return of Germany to the Disarmament Conference have been brought to fruition. Very quietly, in conference rooms, on golf links and over dinner tables, he urged the representatives of Great Britain, France and Italy to agree upon a formula which would admit the principle of arms equality demanded by Germany and, at the same time, guard against her rearmament. There was no difference of opinion as to the necessity for such action, but politically it was exceedingly difficult for Prime Minister Herriot to make the necessary concessions. On Dec. 5 the preliminary conversations had advanced to a point where it was possible to discuss details with the Germans, and at dinner that evening two representatives of each of the five major powers, Great Britain, France, Germany, Italy and the United States, reached a broad agreement. The conversations were continued during the following days, and on Dec. 11 a statement was drawn up and signed.

Three points in the declaration are of the highest importance and significance. Part V of the Treaty of Versailles, which provides for the disarmament of Germany, is to be superseded by a new convention. The United Kingdom, France, Italy and Germany stand ready to agree "that they will not in any circumstances attempt to resolve any present or future differences between the signatories by resort to force." There is a marked distinction between the use of the word "force" and the word "war," which was renounced in the Pact of Paris. Even the phrase "except by pacific means," in the second article of the treaty, may be interpreted, as it obviously is in Japan, as the antithesis of "war" in its technical meaning. Neither China nor Japan has declared war, but "force" is being used without stint. It is not altogether clear exactly why the United States did not join in this declaration, but it can hardly be believed that we would reserve the point in action on a general treaty. The third point is the pledge of all of the five powers to seek, without delay, to work out a convention "which shall effect a *substantial reduction* and a limitation of armaments, with provision for future revision with a view to further reduction."

The Japanese plan for the reduction of armaments, made public on Dec. 10, was obviously a document of diplomatic strategy rather than a serious contribution to the arms discussion. It would, to a certain extent, decrease the tonnage and cost of naval vessels, and the size of the fleets, but it proposes a substantial increase in the ratio allowed to Japan in the Washington and London treaties. It provides for the total abolition of aircraft carriers and the prohibition of landing stages on all warships. The

size of the auxiliary fleet it would determine by a series of four regional pacts, Atlantic, Pacific, European and South American, in which the special interests of the nations concerned would be determinative.

The international copper conference, in session in New York from Nov. 30 to Dec. 11, adjourned without renewing the agreement regarding production which expired at the end of 1932. The Roan Antelope Company, operating in South Africa, which is alleged to have violated the agreement made a year before, demanded a large increase in its quota, and this the other companies would not concede. The result will probably be a price war which will eliminate those companies which have a relatively high cost of production. American producers are at present protected by a tariff of 4 cents a pound.

The International Radio and Telegraph Conference, which had been in session in Madrid since September, adjourned on Dec. 10. Small progress was made beyond that reached in the Washington convention of 1927. The length of code words was reduced from a maximum of ten to five letters. Governments may hold up messages which they consider dangerous to the State, but in each case they are required to notify the sender. Certain changes were made in radio wave allotments.

Representatives of the major oil producing companies, except those of Russia, meeting in Paris during the first two weeks of December, reached a substantial agreement as to production. Rumania was given a somewhat larger allotment. The fact that the Soviet authorities refused to cooperate reduces the value of the agreement and makes necessary further negotiations.

# The Lame-Duck Congress at Work

By E. FRANCIS BROWN

THE desirability of doing away with the lame-duck Congress and inaugurating a new President soon after his election has never been more apparent than in the present hiatus between the Hoover and Roosevelt administrations. The President, with his leadership repudiated by the electorate and Congress beyond his control, has since the November elections been in the intolerable position of reigning but not ruling; the President-elect, on the other hand, has been forced to take some hand in directing the government while still without a formal grant of power. And Congress, controlled absolutely by neither party, contains many members who have a privileged irresponsibility—those who were defeated for office last November but whom the Constitution permits to act as legislators till March 4. Fortunately the probable ratification of the constitutional amendment now before the States will help to prevent a repetition of this sort of impasse in government.

Three problems stand out in the present Congressional session: the need of balancing the budget, the legalizing of beer and farm relief. On Dec. 7 President Hoover sent to Congress a budget of \$4,218,808,344 for the fiscal year 1934 and in the accompanying message urged the curtailment of Federal expenditures and the enactment of a general manufacturers' sales tax of 2¼ per cent. His message failed to mention the proposed tax on legalized beer. Two days later the President in another message outlined the reorganization and consolidation of governmental agencies and bureaus in the interest of economy. At the same time he is-

sued a series of executive orders effecting much of the proposed consolidation, an act which becomes final within sixty days unless Congress disapproves.

During the remainder of the year the budget was before Congress, though little was done about it. With a prospective Treasury deficit at the end of the present fiscal year of more than \$2,000,000,000, the difficulty of balancing the budget was obvious. Sentiment in Congress for a manufacturers' sales tax was lukewarm at best and all but disappeared when Mr. Roosevelt on Dec. 27 made public his opposition to such a tax. In many minds this stand made impossible any balancing of the budget at the short session of Congress, as no other tax seemed likely to bring in sufficient revenue. The Democrats, however, have placed great store in a tax on legalized beer and, after a conference with the President-elect on Jan. 5 suggested that the income tax rates might be raised in order to obtain funds to meet Federal expenses. But this proposal was quickly killed.

One step toward a balanced budget can be taken by reducing governmental expenditures. As was to be expected, the President's proposals for reorganizing various bureaus and agencies met with Congressional disapproval—in part because they came from Mr. Hoover. Meanwhile Mr. Roosevelt, after careful study of the Federal budget, had informed Congressional leaders that he was ready to assume the responsibility of consolidating and eliminating many Federal bureaus if Congress would grant him the power. Whether a bill granting a President such widespread pow-

ers could be passed was still unknown.

Other measures of government economy necessarily involved a reduction of appropriations. The most obvious opportunity for slashing is presented by the huge sums expended for veterans' relief. Both in his annual and budget messages President Hoover urged reduction in the expenditures of the Veterans' Administration and concluded that savings of about \$127,000,000 could be made. Most of the cuts recommended by the President would affect payments to veterans for disabilities which did not result from active service. The attempt to reduce the veterans' drain upon the national treasury apparently has the support of Mr. Roosevelt and is the chief aim of the powerful lobby known as the National Economy League. The Veterans' Administration itself has recommended reforms which would coincide somewhat with the President's program.

While these aspects of balancing the budget as well as pay cuts for civilian employes of the government and curtailment of Federal appropriations for public works remained unsettled, the House of Representatives considered annual departmental supply bills. On Dec. 15 the Treasury-Post-office bill was passed by the House, carrying a total appropriation of \$963,416,597, which was \$32,912,304 below the budget estimate. President Hoover's plea of 11 per cent reduction in all salaries over \$1,000 a year was ignored. By the end of the month the bills for the Interior Department and the Department of Agriculture had passed the House with reductions of about \$2,000,000 and \$65,000,000 from the amounts asked for in the budget. While much of this saving was only on paper and might be lost in the Senate, House leaders were hopeful that nearly \$400,000,000 might be cut from the total budget estimate.

The only new source of revenue with which to balance the Federal budget that appears likely to be ac-

cepted is the beer tax which the Democrats have advocated. However, the probable return from such a tax is uncertain, while the tax depends upon making the sale of beer legal—a process which is not as easy as many people have hoped or believed. A bill to modify the Volstead act in order to permit the manufacture and sale of beer of 2.75 per cent alcohol by weight and of non-intoxicating wine had been prepared before the convening of Congress. On Dec. 7 hearings on the bill were begun and continued for a week, a period during which the Secretary of the Treasury, brewers, scientists and representatives of both the wets and drys stated their position on the bill. On Dec. 15 the House Ways and Means Committee, by a vote of 17 to 7, reported favorably on the bill, which had been revised so as to legalize beer with an alcoholic content of 3.2 per cent by weight. The provisions regarding wine were deleted from the bill. A tax of \$5 a barrel was provided for, while a brewer's permit fee was set at \$1,000 a year. Attempts to amend the bill so as to legalize wine were easily defeated, but the bill itself was passed by the House on Dec. 21 by a vote of 230 to 165. It was then sent to the Senate, where consideration was delayed until after the new year. Should the bill be passed by the Senate a Presidential veto is expected and passage over the veto is unlikely.

After protracted hearings and discussions before the Agricultural Committee a definite proposal for farm relief was introduced in the House of Representatives on Jan. 3. The heart of this bill was the voluntary domestic allotment plan, which was described in the article "Prosperity Waits Upon The Farmer," published in November CURRENT HISTORY. According to this scheme a bounty would be paid to the raisers of wheat, cotton, hogs and tobacco who limited their production to a stated amount in an attempt to bring the price of farm products to the pre-war level



and thus restore the purchasing power of the agricultural regions. The funds to pay the bounty to the farmer would be secured by an excise tax upon the processor, who would pass it on to the consumer.

This plan was vaguely approved by Mr. Roosevelt in his speech at Topeka in September and has since become a Democratic measure of farm relief. It also has the support of the most important farm organizations, although it is opposed by the meat packers, textile manufacturers and the millers. But this proposal, like the legalizing of beer, is almost certain to be vetoed by President Hoover if it is passed by the House and Senate.

There are many other measures before Congress, but few of them are likely to receive consideration at the short session. The Glass bill for reform of the nation's banking system was taken up in the Senate on Jan. 5 and some action upon it may be expected. [See the article "Toward Safer and Stronger Banks" on page 558 of this magazine.] Some plan for unemployment relief is certain to be presented to Congress, but nothing has been done except for a bill passed by the House turning over to the Red Cross the remainder of the cotton held by the Cotton Stabilization Corporation set up by the Farm Board. In the Senate hearings have been held on the Costigan-La Follette relief bill, which would establish a Federal fund of \$500,000,000 for relief donations to the States and remove unemployment relief from the jurisdiction of the Reconstruction Finance Corporation. The fund would be raised by a bond issue, would be administered by a relief board and would be apportioned on the basis of population.

#### MR. ROOSEVELT'S ACTIVITIES

The position of the President-elect during what amounts to an interregnum is always interesting, but never more so than when he is the leader of a party opposed to that which has

been in power. Since his election the nation through its press has watched every move of Franklin D. Roosevelt. Every meeting he has held with prominent political or industrial figures has given rise to talk about Cabinet possibilities or deviations from Republican policies. But Mr. Roosevelt has maintained for the most part a discreet silence upon his plans. His relations with President Hoover on the war debts problem were not happy, but only the most partisan hesitated to grant that he had ably handled an embarrassing situation. [See Dr. Gerould's article on pages 585-587 of this issue.] He has made known his opposition to a sales tax and has insisted that the Federal budget be balanced, that some measure of farm relief be enacted and that beer be legalized, but his attitude has been made known indirectly and not in public pronouncements.

During the interludes of his last weeks as Governor of New York State and later when temporarily a private citizen, Mr. Roosevelt conferred with the leaders of his party in Congress, with financiers and industrialists and with the diplomat Norman H. Davis. Exactly what took place at these conferences was a matter of surmise; undoubtedly the President-elect was taking soundings as well as giving his own position. On Jan. 5 a group of Democratic Senators and Congressmen met Mr. Roosevelt in New York City to determine the program of action in the remaining weeks of the present Congressional session and to discuss general policies.

#### THE ECONOMIC OUTLOOK

The actions of Congress, of President Hoover and of Mr. Roosevelt reflect to a large extent the continuance of the depression. At the end of the year a general tone of pessimism was apparent in the statements issued by the leaders of the business world. Some professed to see hopeful signs, but none dared to assert that recovery

had begun except in so far as the working of certain economic forces had prepared the way for a gradual upturn. Certainly most available statistics lent support to this general pessimism.

*The New York Times* index of business activity showed little fluctuation in December. For the week ended Nov. 26 it stood at 55.5; a week later at 54.3. For the week ended Dec. 17 it reached 58.5, the highest point since April, 1932, and then during the next week fell to 57.5. While these indices have been cited as evidence that business conditions are becoming stabilized, it should be quickly added that this stabilization is at a level which if continued for long means bankruptcy to many enterprises. Commodity prices have fallen again; for the week ended Jan. 3 *The Annalist* index stood at a new low of 83.7. Gold stocks held by the Federal Reserve System have continued to increase and now have wiped out the losses sustained during the first half of 1932. American exports in November, which were the smallest in thirty years, were valued at \$139,000,000—\$14,470,000 less than in October.

Despite the aid extended by the Reconstruction Finance Corporation, 1,400 banks failed in the United States during 1932. How many more would have closed their doors without the vast sums—more than \$800,000,000—advanced by the R. F. C. is a matter of conjecture. Many economists have come to believe that the loans made by the R. F. C. to banks and railroads have delayed the general deflation of the American economic structure which is now considered necessary for recovery. If that be true, then the outstanding Federal measures for economic relief have been at fault, because the loans by the R. F. C. to the States for unemployment aid and for self-liquidating projects have amounted to little, and the benefits promised by the Federal

building program and the Home Loan Bank act have proved illusory.

While the banking situation has shown improvement, because or in spite of the loans from the R. F. C., the railroads still seem to be headed toward receiverships and reorganization. The rate of decline in railroad earnings has been checked to some extent, but it was estimated that the Class I roads of the country would show a combined deficit of \$200,000,000 for 1932, according to statements made before the Interstate Commerce Commission on Dec. 28. As partial relief the roads have sought to obtain higher freight rates and to lower the wages of their employees.

On Dec. 12 a wage conference was held at Chicago between representatives of the railway labor unions and the railroad managers. The railroads desired to make permanent the 10 per cent cut in wages which was accepted for a year as an emergency measure but which was to expire on Jan. 31, 1933. The railroad managers made no secret of the fact that they would like to reduce wages another 10 per cent, but on both issues they had to deal with the strongest labor unions in the country. Eventually, after ten days of bitter negotiation, the unions agreed to accept an extension for nine months of the 10 per cent wage reduction with automatic restoration of the old basic rates at the end of that time. This compromise satisfied neither group, and the question is certain to be debated again. Meanwhile, as the roads sought to reduce their operating costs through cutting wages, the National Transportation Committee continued its investigation of the general railroad situation with the promise of making a report in the early Spring.

As business continued in the doldrums and industry failed to show any improvement, unemployment grew worse. Employment fell 1 per cent and factory payrolls 3.1 per cent in November, according to a report of the Department of Labor, while the A.

F. of L. estimated the number out of work in November at 11,590,000—an "all-time peak"—but added that the ratio of increase was not as great as in previous months. That women have been losing jobs faster than men is the conclusion of the Women's Bureau of the Department of Labor in its annual report. At the same time the depression has given rise to many more sweatshops which are exploiting women and bringing again before the nation the deplorable conditions associated with child labor. The National Child Labor Committee has declared that children are being widely employed in sweatshops in Connecticut, Massachusetts, Pennsylvania and New Jersey, working often for fifty-one hours a week at wages from \$1 to \$3 a week.

As the various government plans of unemployment relief have proved inadequate, labor and the unemployed have begun to seek a way out. President Green of the A. F. of L. has urged resistance against further wage cuts and has advocated the shorter working week, with the use of strikes if necessary to protect labor. The most spectacular attempt to obtain relief was the march of about 3,000 unemployed to Washington early in December. Behind the demonstration was Communist inspiration. No disorder occurred during the stay of the marchers in the capital city, although reports indicated that the police would not have been averse to an opportunity to break up the demonstration forcibly. After presenting petitions for aid to Vice President Curtis and Speaker Garner the hunger marchers returned to their homes. Another means of meeting the problem of unemployment has grown up among the unemployed themselves in the form of a system of barter. J. Douglas Brown of Princeton University told the American Statistical Association on Dec. 30 that 140 separate barter exchanges were in operation in twenty-nine States. In Ohio the use of scrip instead of cur-

rency has begun to come into vogue.

In the midst of these makeshift methods of aiding the workless millions the movement for unemployment insurance has been accelerated. In New York, Connecticut, Massachusetts, New Jersey, Pennsylvania and Ohio attempts are being made to bring about legal enactments looking toward compulsory unemployment insurance. The approval of such schemes by the A. F. of L. has undoubtedly helped to make eventual success probable.

While urban workers battled with the problems of the economic crisis the farming population of the United States faced what threatened to be the worst Winter in modern times. With prices for products so low that farmers are unable to pay taxes or interest on mortgages and with the resulting debt burden becoming heavier and heavier, the farm belt wanted action. While the voluntary domestic allotment plan, if adopted, might be helpful eventually, it would not save the farmer from immediate loss of his farm by foreclosure. Crop limitation, likewise, would be of no immediate aid. In many sections of the Middle West groups of farmers have gathered to prevent Sheriffs' sales of farms foreclosed because of overdue taxes or defaulted interest on mortgages. The farm strike of last Autumn, ineffectual as it was, gave some evidence of the temper of the Middle Western farmer.

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had begun except in so far as the working of certain economic forces had prepared the way for a gradual upturn. Certainly most available statistics lent support to this general pessimism.

*The New York Times* index of business activity showed little fluctuation in December. For the week ended Nov. 26 it stood at 55.5; a week later at 54.3. For the week ended Dec. 17 it reached 58.5, the highest point since April, 1932, and then during the next week fell to 57.5. While these indices have been cited as evidence that business conditions are becoming stabilized, it should be quickly added that this stabilization is at a level which if continued for long means bankruptcy to many enterprises. Commodity prices have fallen again; for the week ended Jan. 3 *The Annalist* index stood at a new low of 83.7. Gold stocks held by the Federal Reserve System have continued to increase and now have wiped out the losses sustained during the first half of 1932. American exports in November, which were the smallest in thirty years, were valued at \$139,000,000—\$14,470,000 less than in October.

Despite the aid extended by the Reconstruction Finance Corporation, 1,400 banks failed in the United States during 1932. How many more would have closed their doors without the vast sums—more than \$800,000,000—advanced by the R. F. C. is a matter of conjecture. Many economists have come to believe that the loans made by the R. F. C. to banks and railroads have delayed the general deflation of the American economic structure which is now considered necessary for recovery. If that be true, then the outstanding Federal measures for economic relief have been at fault, because the loans by the R. F. C. to the States for unemployment aid and for self-liquidating projects have amounted to little, and the benefits promised by the Federal

building program and the Home Loan Bank act have proved illusory.

While the banking situation has shown improvement, because or in spite of the loans from the R. F. C., the railroads still seem to be headed toward receiverships and reorganization. The rate of decline in railroad earnings has been checked to some extent, but it was estimated that the Class I roads of the country would show a combined deficit of \$200,000,000 for 1932, according to statements made before the Interstate Commerce Commission on Dec. 28. As partial relief the roads have sought to obtain higher freight rates and to lower the wages of their employees.

On Dec. 12 a wage conference was held at Chicago between representatives of the railway labor unions and the railroad managers. The railroads desired to make permanent the 10 per cent cut in wages which was accepted for a year as an emergency measure but which was to expire on Jan. 31, 1933. The railroad managers made no secret of the fact that they would like to reduce wages another 10 per cent, but on both issues they had to deal with the strongest labor unions in the country. Eventually, after ten days of bitter negotiation, the unions agreed to accept an extension for nine months of the 10 per cent wage reduction with automatic restoration of the old basic rates at the end of that time. This compromise satisfied neither group, and the question is certain to be debated again. Meanwhile, as the roads sought to reduce their operating costs through cutting wages, the National Transportation Committee continued its investigation of the general railroad situation with the promise of making a report in the early Spring.

As business continued in the doldrums and industry failed to show any improvement, unemployment grew worse. Employment fell 1 per cent and factory payrolls 3.1 per cent in November, according to a report of the Department of Labor, while the A.



F. of L. estimated the number out of work in November at 11,590,000—an "all-time peak"—but added that the ratio of increase was not as great as in previous months. That women have been losing jobs faster than men is the conclusion of the Women's Bureau of the Department of Labor in its annual report. At the same time the depression has given rise to many more sweatshops which are exploiting women and bringing again before the nation the deplorable conditions associated with child labor. The National Child Labor Committee has declared that children are being widely employed in sweatshops in Connecticut, Massachusetts, Pennsylvania and New Jersey, working often for fifty-one hours a week at wages from \$1 to \$3 a week.

As the various government plans of unemployment relief have proved inadequate, labor and the unemployed have begun to seek a way out. President Green of the A. F. of L. has urged resistance against further wage cuts and has advocated the shorter working week, with the use of strikes if necessary to protect labor. The most spectacular attempt to obtain relief was the march of about 3,000 unemployed to Washington early in December. Behind the demonstration was Communist inspiration. No disorder occurred during the stay of the marchers in the capital city, although reports indicated that the police would not have been averse to an opportunity to break up the demonstration forcibly. After presenting petitions for aid to Vice President Curtis and Speaker Garner the hunger marchers returned to their homes. Another means of meeting the problem of unemployment has grown up among the unemployed themselves in the form of a system of barter. J. Douglas Brown of Princeton University told the American Statistical Association on Dec. 30 that 140 separate barter exchanges were in operation in twenty-nine States. In Ohio the use of scrip instead of cur-

rency has begun to come into vogue.

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their position on the various plans to aid the farmer. It was notable that while favoring the preservation of the cooperative and educational work sponsored by the Federal Farm Board the farmers' organizations were opposed to the continuance of the stabilization activities which have played so large a part in bringing the Farm Board into disrepute.

#### PHILIPPINE INDEPENDENCE

A new chapter in American imperialism appeared to be completed on Dec. 29, when the House of Representatives by a vote of 171 to 16 approved the Hawes-Cutting bill for eventual independence of the Philippines. For nearly thirty-five years the question of what to do with the great Asiatic archipelago has agitated American politics, although it should be added that the public as a whole has never been interested in the possession, either as an evidence of American world power or as a field for investment.

While Philippine independence has been aired in Congress and the press for many years, it seems unlikely that the step of granting independence would have been taken for a long time if American agricultural interests had not become excited over the alleged competition in the home market of Filipino products and labor. Urged on by this selfish motive rather than by altruism, bills were introduced into Congress at its last session for the independence—with some reservations—of the Philippines. The Hare bill passed the House, but Congress adjourned before the Senate took action upon that bill or upon the Hawes-Cutting measure, which was pending in the upper house.

Soon after the lame-duck session convened the Senate began its consideration of the Hawes-Cutting independence bill. On Dec. 17, after eight days of heated debate, the Senate adopted the bill, which, as the House refused to concur, then went to conference with representatives

from that body. Five days later the Senate adopted the conferees' report, as did the House on Dec. 29. The bill in its final form provided that the act should be approved by the Philippine Legislature, which would have the option of accepting or rejecting the entire proposal. If accepted, the islands, through the Legislature or a special convention, must adopt a republican constitution which within two years of passage of the Hawes-Cutting bill must be submitted to the President of the United States for approval, and if so approved must be accepted by a popular vote of the Filipinos themselves. Ten years after adoption of this constitution the islands would become independent.

Other provisions of the act placed somewhat onerous restrictions upon the Philippines during the ten-year probationary period. At the end of that time they would be outside American tariff walls, but meanwhile their export of sugar, duty-free, to the United States would be limited to 850,000 long tons annually, their exports of cocoanut oil to 200,000 long tons, and cordage and similar fibers to 3,000,000 pounds. Emigration to the United States would be limited to fifty persons a year. During the ten-year period the Philippine Government must assess a gradually increasing export tax upon goods shipped to the United States. Nevertheless, throughout the period of probation American goods must be admitted to the islands without paying any duty. Besides numerous less important provisions the bill reserved certain military posts to the United States upon the attainment of Philippine independence.

While the American people thus seemed to have turned away from their traditional loyalty to manifest destiny, the Filipinos, who had long been agitating for independence, discovered the old truth about looking a gift horse in the mouth. Foreseeing economic ruin if the Hawes-Cutting bill became law, yet hesitant to re-

pudiate their former stand, political leaders in the Philippines compromised by approving a petition to President Hoover for signature of the bill, but voted lack of confidence in the independence commission at Washington. Meanwhile Filipino legislators attacked the bill as a joke, as selfish and ill-advised.

The economic situation of the islands has not been good and the prospect of being shut off from American markets is disheartening, especially because the Philippine Legislature at its last session adopted tariff schedules which tended to favor imports from the United States to a greater extent than ever before. At the same time the Philippine budget is unbalanced and the reorganization of the government, which has long been urged, has not been carried out.

#### THE REPORT ON SOCIAL TRENDS

A monthly chronicle of events in the United States such as appears in these pages touches on the underlying forces in American life only when it is necessary to relate actual happenings to broader trends. The real task of showing how the incidents of a day or month are only part of a larger historical evolution requires such ample treatment as we find in the great report of the President's Research Committee on Social Trends.

In September, 1929, President Hoover asked a group of scientists under the chairmanship of Dr. Wesley C. Mitchell "to report upon recent social trends in the United States with a view to providing such a review as might supply a basis for the formulation of large national policies." Three years of study and research have resulted in a voluminous report upon political, social and economic developments in the United States during the past thirty years. In the two volumes of the report and the thirteen volumes of special studies and supporting data will be found a mine of information

on the "bewildering confusion" of American life. But it is the conclusions of the committee, rather than its actual findings, which at the moment deserve attention.

In an era which has praised "rugged individualism," a committee of experts, set up by an exponent of individualism, concludes that only a planned society will prevent violent political and social change. In the committee's words, "the type of planning now most urgently required is neither economic planning alone nor governmental planning alone. The new synthesis must include the scientific, the educational, as well as the economic (including here the industrial and agricultural) and also the governmental. All these factors are inextricably intertwined in modern life, and it is impossible to make rapid progress under present conditions without drawing them all together."

In the Winter of 1931-32 there was much talk in the United States of economic planning; now that talk is reinforced by the report of a semi-official committee. The committee, however, goes further and recommends not only economic planning but a whole planned society. Such an ideal seems distant indeed; yet there are many straws indicating the direction in which the wind is blowing. The two-volume report, *Recent Social Trends*, is one; another is the report of the Committee on the Costs of Medical Care, reference to which was made in these pages last month. Sociologists, economists and prominent industrialists now advocate various degrees of social planning before all kinds of meetings and in the nation's press. Possibly we are witnessing the first steps toward a new organization of society; certainly the agitation is indicative of forces in American life which are striving to overcome the weaknesses which have become apparent in twentieth century civilization.

# The Marines Leave Nicaragua

By CHARLES W. HACKETT

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Current History Associate*

AFTER six years of continuous military intervention in Nicaragua, the United States Government began to withdraw its marines on Nov. 29, 1932, and completed the evacuation by Jan. 2 of this year. Before the withdrawal began the marine personnel in Nicaragua consisted of 1,408 officers and enlisted men.

American marines were first landed in Nicaragua in August, 1912, and from then until August, 1925, a detachment that seldom numbered more than 100 men was kept at Managua as a Legation Guard. All marines were withdrawn from Nicaragua on Aug. 1, 1925, but an expedition was sent to that country temporarily in May, 1926. In December of the same year marines were again landed and began the military intervention that was formally terminated on Jan. 2, 1933. At the peak of this intervention, in 1928, there were 5,365 marines and 465 naval officers and men in Nicaragua; in addition, fourteen United States men-of-war patrolled Nicaraguan waters to prevent the landing of arms intended for the rebels.

American casualties since May, 1926, have been five officers and 29 men killed in action against bandits and insurgents and 14 officers and 85 men fatally wounded. Major Gen. B. H. Fuller, commandant of the Marine Corps in Nicaragua, stated in his annual report that during the past year the marines had engaged in extensive operations against rebels in various parts of Nicaragua, either independently or in support of the Nicaraguan National Guard. It was officially estimated before the Appropriations Committee of the House of Rep-

resentatives that the expense of maintaining the marines in Nicaragua has been approximately \$1,000,000 more than would have been required to maintain them at home in their ordinary pursuits.

The United States Department of State on Jan. 1 issued a review of the marine occupation of Nicaragua in which it was stated that the marines were sent in 1926 at the request of the Nicaraguan authorities to protect American lives and property, and had remained there under an agreement with Nicaragua which ended a civil war, for the dual purpose of organizing and training a non-partisan constabulary, and of supervising the elections of 1928, 1930 and 1932. These aims, the statement announced, have all been realized, and satisfaction was expressed as to the work of the marines and the development of political responsibility among the Nicaraguan people. Assurance was given that no American armed forces would remain in Nicaragua in any capacity whatever.

Dr. Juan B. Sacasa and Dr. Rodolfo Espinosa were inaugurated as President and Vice President of Nicaragua on Jan. 1. In his address President Sacasa stated: "Two major problems are before the government: first, the disturbed conditions in the northern department and, second, the withdrawal of the United States Marines. The departure of the marines imposes a sacred duty on the entire citizenry to cooperate with the government to bring about peace. \* \* \* I intend to maintain the National Guard free from political activities. I am disposed toward encouraging private ini-



tiative and the establishment of new industries, the building up of the means of communication and closer relations with the Central American republics."

#### AGRARIAN CONFLICT IN MEXICO

A dispute between the Mexican Government and the State of Vera Cruz arising out of divergent views on agrarian policy produced a situation that bordered on anarchy in that State during December. In order to enforce its own decision in the question at issue, the Mexican Government found it necessary to dispatch a considerable number of federal troops to Vera Cruz.

The State of Vera Cruz desires to bring about the distribution of expropriated agricultural lands to communal groups or to villages, and such action has the strong support of former Governor Adalberto Tejeda. The federal government, on the other hand, requires that these lands be distributed to individual farm workers and their families. The policy of Vera Cruz was initiated in 1920, at the beginning of the Mexican agrarian reform movement, but later was discontinued. On Dec. 9, Minister of Agriculture Elias condemned its revival, saying: "With insecurity in possession of his parcel, the farm worker would be in a worse position than that of the serfs on the old haciendas."

Meanwhile, on Dec. 1, Governor Tejeda resigned, apparently for the purpose of promoting his campaign for the Mexican Presidency; his candidacy was endorsed in October by the Ruralists and the Workers' Syndicate. Though a member of the National Revolutionary or Government party, he is recognized as the leader of its radical wing. During his tenure of office Vera Cruz took the lead among the Mexican States in restricting church activities, in enacting advanced social legislation and in pass-

ing radical laws for the seizure of private property.

Coincident with Governor Tejeda's resignation, the federal government sent soldiers and army engineers to Vera Cruz—the former to compel the State authorities to comply with the federal agrarian policy and the latter to parcel out lands in accordance with that policy. When clashes occurred between these federal forces and 15,000 armed agrarians, large reinforcements were dispatched to the State and the disarming of the agrarians was begun. The government's determination in this matter was expressed by President Rodriguez, who said: "I will not tolerate any attempted anarchical dissensions within the unity and harmony now existing. The government over which I preside will proceed with all the necessary energy that the circumstances may require against those who plan to violate the mandates of the Constitution and create internal disorders." Political observers in Mexico City interpreted this as a warning that the government would not permit its opponents to form a radical political party under Tejeda. The latter, on being urged by a delegation of Radical Socialists to stand for the Presidency, was quoted on Dec. 11 as having said: "The workers of all kinds, rural and industrial, must stand solidly together. The proletariat should take control."

The latest of a series of socialistic laws sponsored by former Governor Tejeda went into effect in the State of Vera Cruz early in December. This law legalizes birth control, provides for the sterilization of criminals and mental defectives and prohibits the marriage of persons who are mentally deficient or physically unfit. In order to insure the operation of these measures the law established a Bureau of Eugenics and Mental Hygiene, which was placed under the State Department of Health.

Two more Mexican States have re-

cently conformed to the nation's general policy to limit by law the number of Catholic priests. In the State of Guanajuato a law limiting the number of priests to one for every 25,000 inhabitants went into effect on Dec. 5. The Governor of Durango on Dec. 15 issued a decree limiting the number of church officials in that State to twenty-five. The Legislature of the State of Querétaro on Dec. 4 requested the Federal Congress to expropriate all Catholic churches throughout the country and to convert them into schools, training shops and recreational centres.

On Dec. 3 the National Board of Arbitration and Conciliation handed down its decision regarding the strike last June of employees of the Southern Pacific Railway of Mexico. In July the government ordered the strikers to return to work without prejudice to their cause. On the whole the board's decision was favorable to the strikers, since the railway was denied the right to make a 10 per cent salary reduction or to dismiss 183 right-of-way workmen. On the other hand the company was not required to pay employees for the actual period of the strike and was authorized to use foreigners in positions requiring ability to direct the work of others.

Mexico's intention to withdraw from the League of Nations at the end of 1934—on the expiration of the two years' time limit for such notification—was officially disclosed at Geneva on Dec. 15. Mexico's membership in the League has been unprecedentedly brief, only fourteen months having elapsed since she became a member. In September, 1932, Mexico was honored with a seat in the League Council, but her delegate has not been active. Minister of Foreign Affairs Téllez on Dec. 15 explained that the effects of the world depression upon Mexico and the need for economy were responsible for Mexico's decision, but that "if the Mexican economic situation improves, she will remain a member of the League, with whose high

principles she is now so fully identified." Leading Mexico City newspapers attribute the government's decision to the League's failure to cope effectively with the Manchurian problem and with the Chaco conflict between Bolivia and Paraguay. Spanish and Latin-American diplomats at Geneva, who were active in inducing the League in 1931 to upset precedents in order to speed Mexico's entry and who later supported her candidacy for a Council seat, were reported to have felt that Mexico had failed them through her decision to withdraw.

Numerous changes in Cabinet and other high government positions were made during December. Eduardo Vasconcelos was promoted on Dec. 17 from Acting Minister to Minister of the Interior. Manuel C. Téllez, Minister of Foreign Relations, resigned on Dec. 20 and was succeeded by Dr. José M. Puig Casauranc, Ambassador to the United States since November, 1931. It was expected that Señor Téllez would be reappointed as Ambassador to the United States, a post he held for eleven years before being called to Mexico a year ago to serve in the Cabinet of ex-President Ortiz Rubio. On Dec. 27 General Lazaro Cardenas, former Governor of Michoacan and Minister of the Interior, was named Minister of War. That portfolio had not been filled since President Rodriguez vacated it to become President. At the same time General Miguel Acosta was granted a leave of absence as Minister of Communications and was named chief of military operations in Vera Cruz. Numerous shifts of military commanders were also made throughout the country. Two newly created Cabinet posts were filled on Dec. 29; that of Minister of National Economics by Primo Villa Michel, and that of Labor by Juan Ríos Bojorquez.

#### REBELLION IN HONDURAS

The rebellion in Honduras, which grew out of dissatisfaction with the

result of the recent Presidential election, continued during December and threatened to overthrow the government. On Dec. 12 the garrison at Amapala, the only Honduran port on the Pacific, joined the rebellion at the request of General José María Reina, who had arrived two days earlier from Guatemala. An extraordinary session of Congress on Dec. 15 approved decrees declaring martial law and commandeering for military purposes all funds in special treasuries. On Dec. 21 the government was authorized to float a loan of \$500,000 to be used exclusively for war purposes and to pledge customs revenues as security for the loan. The United States Chargé d'Affaires in Honduras cabled shipping representatives in the Canal Zone that the Port of Amapala had

been closed because of the hostilities. Government forces under General Camilo Reina and rebel forces under his brother, General José María Reina, were reported on Dec. 26 to be facing each other in western Honduras, with a major battle in prospect.

#### CENTRAL AMERICAN TREATIES

The recent effort of the Costa Rican Foreign Minister Pacheco to negotiate an agreement with other Central American countries to abrogate the Central American peace pacts of 1923 has met with disapproval from Guatemala. The Guatemalan Foreign Minister was quoted on Nov. 29 as saying: "The treaties, in my opinion, have produced more benefit than harm and should be revised, rather than suppressed."

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## South American Republics at War

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By HENRY GRATTAN DOYLE

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THE new year found a marked shift of emphasis in South American political affairs compared with the preceding three years. Instead of internal difficulties—though these are by no means absent—international problems, represented by the war in the Chaco between Paraguay and Bolivia, and the warlike atmosphere surrounding the Leticia affair, which concerns Peru and Colombia, now hold the centre of the stage.

Were it not for the checkered political history of Chile and Ecuador during the past year and the imposing military revolt from which Brazil is just recovering, the friends of constitutionalism might find a great deal of encouragement in the South America of 1932. The inauguration on Dec. 5 of Juan de Dios Martínez Mera as

President of Ecuador and on Dec. 24 of Arturo Alessandri as President of Chile has restored the helms of their respective ships of state to constitutionally chosen pilots. Only one "strong man" government—that of General Gómez in Venezuela—now holds sway in South America, as compared with two at this time last year, and only one Provisional President, Señor Vargas of Brazil, is still in office, as compared with two a year ago. Elections have been announced in Brazil which, if held next May as scheduled, should replace the only remaining *de facto* government with a *de jure* one.

Real ground for discouragement exists, however, in the international field. The war in the Chaco is being prosecuted with renewed vigor, while



Centres of conflict in South America

neutral efforts to compose the quarrel apparently have reached their lowest degree of effectiveness. A new factor here is the shift of the tide of military success in favor of Bolivia, which in a brilliant campaign has apparently turned the tables on her opponent. As for the Leticia affair, warlike preparations by Colombia and Peru seem to have developed to the stage where military action is imminent, with all that it involves in unnecessary bloodshed and expenditure, to the consequent concern of neutral governments, particularly that of Brazil.

#### WAR IN THE CHACO

General Hans Kundt, the German officer who trained and commanded the Bolivian Army until the downfall of the Siles régime, reached La Paz on Dec. 6. A Bolivian citizen, he had been summoned back from exile in Germany by the Bolivian Government. As reported in these pages last month, the Paraguayan advance in the Chaco, which had gone forward steadily, if at times slowly, seemed to have been stopped late in November after a series of attacks on Forts Agua Rica

(Samaklay), Saavedra and Marguía, with Fort Muñoz as the ultimate objective, had failed. By the end of December the stalemate was broken and the Bolivian troops had regained practically all the ground that they had lost since last September and apparently were seriously threatening Fort Nanawa (Ayala) itself, the Paraguayan base in the southern sector of the Chaco.

Brilliant leadership, whether it was contributed by General Kundt or by others, undoubtedly played an important part in this reversal of the fortunes of war. Other factors of equal importance were no doubt Bolivian road-building and transport accomplishments, superiority in artillery and in the air, and perhaps the exhaustion of the Paraguayans and the attainment by the Bolivians for the first time of their maximum effectiveness. At all events, the list of objectives attained reads in reverse order like the story of the earlier Paraguayan offensive.

The series of attacks by the Paraguayans on the Saavedra front, to which reference was made last month, continued unabated until mid-December. The climax to five weeks of struggle occurred at Kilometer Seven, on the Alihuata Road, about seven kilometers northeast of Fort Saavedra, at a point where the dense forests are interrupted by comparatively level pampa. In the week of continuous fighting which preceded the final repulse of the Paraguayan offensive on Dec. 10 heavy casualties are reported to have occurred. The Bolivians, well entrenched and protected by machine-gun nests and good artillery, apparently inflicted heavy losses on the attackers. In Bolivian counter-attacks light tanks are reported to have been used effectively, while Bolivian aviators dropped bombs on the Paraguayans or flew low to direct deadly machine-gun fire at them.

In many respects the fighting methods in this sector apparently ap-



proached the trench warfare of the World War, with night attacks under the light of star shells, artillery barrages and hand-to-hand fighting in which every foot of ground was bitterly contested. Reports from Buenos Aires estimated that 20,000 men were engaged in the fighting at Kilometer Seven alone, and Bolivians claimed that 1,400 Paraguayans were killed in the Saavedra sector. Unconfirmed reports from Buenos Aires estimated the Paraguayan dead and wounded since hostilities started at 12,000 and the Bolivian at 18,000.

General Kundt left La Paz for the front on Dec. 10 and on Dec. 13 the Bolivians resumed the offensive in the northern sector after having fought an almost purely defensive war since Sept. 29, when they lost Fort Boquerón to the Paraguayans. The first victory was the recapture of Fort Platanillos, taken by Paraguay on Nov. 6, and important because of its control of several good roads, including the road to Fort Cabezón, terminus of the new Bolivian road from Fort Balivián, which passes through relatively high and dry terrain. On Dec. 15 Fort Loa was recaptured, on Dec. 20 Fort Jayacuba and on Dec. 21 Fort Bolívar, virtually restoring the military status quo in the north as it was at the beginning of hostilities on July 15.

Renewal of activity in the north, with the Bolivian offensive obviously having as its objective the recapture of Forts Toledo, Corrales and Boquerón, combined with Bolivian air attacks on Bahía Negra (Puerto Pacheco), apparently marked a turning point in the war. Advances in the north, or Puerto Casado sector, compelled the Paraguayans to withdraw troops from the south, or Saavedra sector, thereby lessening pressure on the Bolivians there. Retirement of the Paraguayans in the south to Nanawa and concentration of other forces at Forts Arce and Boquerón were obviously intended to protect the railhead of the railway line running east from

Nanawa to Concepción, the general staff headquarters on the Paraguay River, as well as the two shorter lines running to Puerto Piñasco and Puerto Casado. The Bolivians were not slow to take advantage of the Paraguayan withdrawal and on Dec. 31 reported the capture of Fort Duarte, one of the main outposts of Nanawa. On Jan. 3 the Paraguayans officially admitted the abandonment of Fort Corrales.

Bolivian morale, encouraged by this series of successes, was at a high point as the new year opened, while Paraguayan hopes had correspondingly ebbed. Newspaper reports indicated that the air bombardment of Bahía Negra, far to the north and remote from the active fighting, inflicted serious damage and had a bad effect on the morale of the Paraguayan civilian population.

The departure of Dr. Juan José Soler, Paraguayan delegate to the commission in Washington which has been endeavoring to conciliate the disputants in the Chaco quarrel, brought perilously close to a complete breakdown neutral efforts to end hostilities and to lay the groundwork for permanent adjustment of the dispute. Dr. Soler, under instructions from his government, sailed from New York on Dec. 31. The Paraguayan refusal to continue negotiations, besides being bad tactics diplomatically, came at a time when the Paraguayan arms, suffering from a series of setbacks, had begun to lose military prestige and whatever advantages, if any, a favorable military position may have in such negotiations.

The action of the Paraguayan Government followed its refusal to accept a new neutral proposal advanced on Dec. 15. Important points in this plan were suspension of hostilities within forty-eight hours; ratification of the agreement within one month; withdrawal of the respective forces—the Paraguayans to the Paraguay River and the Bolivians to a line running from Fort Ballivián to Fort Vitrones; demobilization of the armies to peace

strength and policing of the evacuated zone by a small force from each country, with a central zone between them. These steps would not prejudice the juridical position of either party. A further provision would leave determination of the territorial limits of the Chaco, in case the parties were unable to agree, to experts appointed by the American Geographical Society of New York, the Royal Geographical Society of London and the Geographical Society of Madrid. If an arbitral tribunal could not be agreed upon within four months, the case would go to the World Court.

On Dec. 17 Paraguay rejected the proposal on the ground that it was unjust and openly favorable to Bolivia, by converting a question of frontiers into one of territorial litigation. Paraguay also objected to the apparent inclusion in the Bolivian police zone of the territory given to Paraguay in an arbitral award by President Hayes in 1878 and which she has occupied ever since. The recall of Dr. Soler was ordered on Dec. 19. The next day Bolivia replied to the neutral proposal that "in view of the absolute rejection by Paraguay, this government does not believe it useful to touch on any of its points." The note, however, stated that while previous communications indicated acceptance in principle of the main features of the plan, a detailed discussion would bring out observations by Bolivia "of a differing nature" with regard to some of its articles.

Except for the two principals, the neutral proposal received widespread support not only from the foreign offices of the other American republics but from the Council of the League of Nations, which on Dec. 17 broadcast by radio a world-wide appeal in Spanish, French and English for cessation of hostilities in the Chaco.

In a reply to the Paraguayan rejection, the neutral commission on Dec. 20 pointed out that its proposal was not intended to examine titles or de-

cide rights, but merely to indicate "an honorable and appropriate proceeding to terminate hostilities immediately and submit the Chaco question to arbitration." The neutrals further declared that the fact that both parties did not find the proposal entirely satisfactory was an indication of its justice, equity and impartiality. Further interchanges in an effort to have Paraguay reconsider its rejection of the plan and cancel the recall of Dr. Soler were without result. A neutral note on Dec. 23 pointed out that while Paraguay now objects to withdrawal of Bolivian troops to the Ballivián-Vitriones lines, only last August it considered adequate the positions of June 1, 1932, which were much nearer the Paraguay River.

Informed of the departure of Dr. Soler, the neutral commission in an identic note dispatched on Dec. 31 asked the four countries nearest to the zone of hostilities—Argentina, Brazil, Chile and Peru—what steps they were prepared to take to bring about peace. "There is no justification for continuation of fighting," according to the note, "when a just and fair way out is offered." Reports that efforts would be made to transfer the seat of neutral negotiations to Buenos Aires were not thought to promise success, since Bolivia is believed to be opposed to Argentina's "good offices" because of the latter's financial interests in Paraguay. Bolivian reports claim that Argentine officers are serving in the Paraguayan Army.

The question of an embargo on the sale of arms to the combatants was raised late in December, when it was reported that President Hoover had prepared a message to Congress in which he would ask approval of the prohibition of shipments of arms to any country regarded as a possible or actual threat to international peace. The Presidential message was finally sent to the American Congress on Jan. 10. The retiring Chilean Foreign Minister, Jorge Matte, on Dec. 22 pro-

posed a new international code governing relations of neutrals with neighboring countries at war, whether war is declared or not. It is obvious that Chile, through whose ports of Antofagasta and Arica Bolivian munitions are received, is seeking, like the United States, to find a method whereby failure to declare war may not save combatants from the consequences of actual warfare in so far as they affect the attitude of neutral nations toward them. While most of the war materials used in this instance come from Europe, it is charged that American bankers have lent Bolivia \$20,000,000 for the purchase of arms, most of the money being spent for that purpose in Great Britain.

#### THE LETICIA AFFAIR

Though Brazilian dispatches heavily discount reports of large concentrations of troops by Colombia and Peru in the vicinity of Leticia, the Colombian village on the Upper Amazon seized by Peruvians on Sept. 1, there seems no reason to doubt that forces either in the vicinity or on their way to the seat of trouble are comparatively large in number if difficulties of transportation are considered.

On Jan. 2 the Colombian transports Cordoba, formerly a French transport, and Boyacá, formerly the American merchantman Bridgetown, and a number of gunboats sailed from Pará. Under a treaty between Colombia and Brazil, Colombian Government vessels have the right to use Brazilian rivers en route to Southern Colombia. Reported Peruvian efforts to induce Brazil to block the progress of the Colombian flotilla were apparently fruitless. The ships were reported to carry 1,000 soldiers, as well as munitions and supplies.

All Colombian forces in the vicinity of Leticia have been placed under the command of General Alfredo Vázquez Cobo, Colombian Minister to France, who was aboard one of the vessels. The appointment of General Vázquez

Cobo, who was an unsuccessful candidate for the Presidency against President Olaya Herrera at the last elections, to this post is typical of the non-partisanship which has characterized Dr. Olaya Herrera's conduct of the Presidency, as well as indicative of the general support that his "concentration" administration enjoys.

Brazil is reported to have about 400 soldiers near Leticia, 1,100 men on the way up the Amazon and 500 more about to sail, in order to preserve its neutrality in case hostilities break out between Peru and Colombia.

Neutral intervention in an effort to compose the Leticia situation does not seem likely to succeed, in view of Colombia's attitude that the matter is purely domestic and that her troop movements are merely an assertion of her authority and police powers in her own territory.

#### CHILE'S NEW PRESIDENT

President Arturo Alessandri of Chile began a six-year term on Dec. 24. The members of his Cabinet, chosen for their ability rather than as party men, included Don Miguel Cruchaga Tocornal, former Ambassador to the United States, as Minister of Foreign Affairs. The new President pledged himself to strict constitutionality and announced a "semi-socialistic" program to further the interests of the proletariat "not with fancy theories or magic formulas but with genuine laws for social and mass betterment." It was announced that President Alessandri would shortly issue a manifesto urging a Pan American customs union. In a statement on Dec. 27 he criticized American bankers for the part they had played in the abuse of credit by the Ibáñez régime, but maintained that "those who endeavor to show me as a bad friend of the United States because I criticize with severity certain acts carried out by Americans in my country, are misinformed." On Jan. 2 Cosach, the Chilean nitrate monopoly, was ordered to be liquidated by a commission consisting of

one member representing the company, one the government and one chosen by the Supreme Court. The monopoly was owned in equal shares by the government and foreign investors, most of whom are Americans. This action called forth a statement by the American president of the combine, M. G. D. Whelpley, who criticized the decree as contrary to deeds and organization papers signed by the government with legislative authorization at the time Cosach was created in 1931.

#### ARGENTINE STATE OF SIEGE

Following the arrest of former Presidents Hipólito Irigoyen and Marcelo T. de Alvear, together with other leaders of the opposition Radical party, on Dec. 16, the Argentine Congress on Dec. 17 voted to approve a declaration of a "state of siege"—

modified martial law—for thirty days. Both actions were taken after the discovery of a revolutionary plot against the government of President Agustín P. Justo. Alleged details of the plan included the kidnapping of the President and bombings, 1,000 hand grenades having been seized by the government. Former President Irigoyen was again imprisoned on Martín García Island in the La Plata River, while the other prisoners were detained aboard the cruiser Veinticinco de Mayo. A number of those held, including General Luis Dellepiane, former Minister of War, and Honorio Pueyrredón, former Ambassador to the United States, were absolved of complicity in the plot by the Federal courts on Dec. 24, but the government continued to hold them under the powers granted it by the declaration of "state of siege."

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## South Africa Goes Off Gold

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By J. BARTLET BREBNER

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THE Union of South Africa in 1931 exported \$225,000,000 worth of gold, over half the annual production of the world. Yet after fifteen months of studied, skillful effort on the part of N. C. Havenga, the Minister of Finance in the Nationalist Government, headed by Prime Minister Hertzog, the gold standard for the South African pound was abandoned on Dec. 27, 1932. It succumbed to a confidence crisis and to a flight from the pound whose immediate causes were political and reflected economic conditions only partially. As was pointed out a year ago, the Hertzog Government proved able to withstand the pressure of the banks, the merchants and the mines and quieted its primary producers by devoting a primage duty on imports to the payment of bounties

on primary exports. The South African party, under the leadership of General Jan Christiaan Smuts, made little headway as the Parliamentary Opposition.

The first hint of change came from the Germiston by-election on Dec. 1, when in a record poll the South African party nominee defeated the Nationalist by 4,527 votes to 3,076 in what was virtually a straight fight. The gold standard was the main issue. General Smuts, at the congress of his party at Bloemfontein on Dec. 7 and 8, took advantage of the Germiston election to invite Labor to cooperate with him. Nine Rand Labor leaders on Dec. 12 accepted the invitation, but the remainder preferred to maintain the separate identity of the Labor party.



Justice Tielman Roos caused much surprise when on Dec. 20 he resigned his position on the bench and announced his intention of entering politics for the purpose of bringing about the immediate devaluation of the currency and the extinction of racialism. He had formerly been leader of the Transvaal Nationalists and a member of the Hertzog Ministry, but he was a "two-stream" Nationalist, that is, an upholder of the belief that both English and Afrikaners should avoid policies tending to racial domination. He now sought to form a coalition by winning over members of both parties. The farmers rallied to his standard, but Smuts and the South African party felt that he was trying to reap the reward of their long campaign against Hertzog and seeking to relegate both Smuts and Hertzog to obscurity. Actually Roos had small success in securing the support of the parties' rank and file.

His manifesto, however, convinced many people that Hertzog could not maintain the gold standard against the double assault, and there began a withdrawal of gold sovereigns and a purchase of foreign exchange which quickly assumed threatening proportions. Although the Christmas holidays intervened and the banks severely limited purchases of exchange, it was calculated that between £2,000,000 and £3,000,000 left the country in three days. This speculation proved to be too much of a strain for the Reserve Bank and after a Cabinet meeting on Dec. 26 the bank was relieved of the necessity of redeeming notes with gold.

Several days of confusion followed, during which the South African Government tried to keep the pound on gold for external relations while it was off gold in internal transactions—the reverse of present Canadian practice. This effort failed and both banks and mines had to be set free to negotiate in internationally determined values. Hertzog did not resign,

as had been expected, nor did he devalue the South African pound.

#### *BRITAIN'S WAR-DEBT PAYMENT*

Although the British Government on Dec. 15 paid \$95,500,000 in principal and interest of the war debt to the United States, there was among the British people a general feeling that no more payments would be made without a complete re-examination of the situation. The Treasury experts in their memoranda for the Cabinet had, it seems, favored the policy which Mr. Lloyd George later summarized as "No parley, no pay." In these circumstances the Cabinet during November sounded out public opinion and received convincing evidence that default was unacceptable to the British people. The government therefore decided to pay and to pay in gold, because gold was immediately available at the Bank of England, whereas the purchase of dollars would mean open market operations and almost certain speculation in exchange. Mr. Winston Churchill put the case in another way in the House of Commons on Dec. 14 when he said that "there was unanimity of feeling in this country that gold was the least valuable thing we had to send." Superficially the transfer was very simple, for the Bank of England earmarked gold in its reserves for the Federal Reserve Bank of New York and began to ship it at once. Actually, from the British domestic point of view it was very complex, because, apart from the legal obligation of the Bank of England to value its gold at the old parity of the pound (\$4.8665), consideration had to be given to the effects of the gold transfer on the exchange value of sterling, on the note circulation and on taxation.

The pound sterling, which had fallen to \$3.14½ during the early exchange of notes with the United States, rose to \$3.34, its level before the debt negotiations began, despite the fact that the payment reduced the

Bank's gold reserve from 33 1-3 per cent to 18 1/8 per cent. This was regarded as largely due to renewed confidence in British promises to pay, but it was also believed that the Exchange Equalization Account, operated by the Treasury and the Bank, owned gold and that it would acquire more.

Another reassurance was contained in the statement by Neville Chamberlain, Chancellor of the Exchequer, on Dec. 14 that, while the Bank must contract its note issue to conform to the reduction in its reserves, there would be no compensatory increase in the fiduciary note issue. At the same time taxpayers were heartened to learn from Mr. Chamberlain that the debt payment, which was not budgeted for, would not have to be carried over as a deficit to the next financial year, but "would be met out of savings in the sinking fund and in the interest on Treasury bills.

At the end of the calendar year revenues for the first nine months of the financial year amounted to £404,000,000 and expenditures to £609,000,000. It was hoped that the January payments of three-quarters of the annual income tax and surtax would wipe out the deficit. The supplementary expenditure of £18,000,000 had had to be authorized on Dec. 19 for unemployment relief, but the new tariffs had already brought in £26,000,000 more than during the corresponding period of 1931. In a purely bookkeeping sense, Great Britain and the Bank of England really seemed very little worse off than in December, 1931, when the country was just beginning to pull itself together after the political crisis and the passing of the gold standard. The gains which had been made so painfully during 1932 had apparently been wiped out by a single debt payment to the United States. Great Britain could not surmount the American tariff wall to pay her debt in goods; in fact she bought five times as much from the United

States as she sold to her. Unless there should be a general world recovery she could not pay much longer in gold. The British people decided to pay in December, but they also approved the principle that the payment must be made, not in the regular course, but as an amount to be credited to Great Britain in a new settlement which must be made before any other payment left the country.

While Parliament devoted a good deal of its time during December to the debt situation and to such international affairs as the Disarmament Conference and strained relations with the Soviet Union and Persia, it also found itself discussing at length housing and Scottish home rule. Housing has been a perennial and insoluble problem ever since the war. Much building has gone on with public assistance, but, as elsewhere in the world, the new houses have been beyond the reach of the low-wage class. The discussion inevitably linked housing and unemployment, but the government, in the classic dilemma between public works and economy, chose economy and hoped that private enterprise would take advantage of the act of 1930 and perhaps get rents nearer the five or six shillings a week that the lowest-paid workers can pay. The Scottish movement for home rule has been accentuated by the depression, and during the Autumn of 1932 it has purged itself of many of its purely romantic elements in favor of practical proposals for the devolution of Scottish administration from Westminster to Edinburgh. The recent debates in Parliament were in such realistic terms that the government promised to consider the situation and make legislative proposals.

Unemployment increased during November by 52,800 to reach 2,799,806 on Nov. 21. This was close to the peak of 2,813,163 in August, 1931. The increase was largely seasonal, but involved an additional 47,000 wholly unemployed. Improvement in the coal, cotton textile, chemical and

iron and steel industries promised better things and was reflected in the trade figures for November. Exports gained again to reach £35,140,000 (£36,830,000 in 1931). Imports were £61,560,000 (£83,231,000 in 1931). The trade deficit was £26,120,000 as compared with £46,401,000 a year before, and for the first eleven months was £263,169,000 instead of £369,621,000.

#### IRISH ELECTION CAMPAIGN

President de Valera of the Irish Free State announced on Jan. 2 that the Dail was dissolved and that a general election would be held on Jan. 24. Since March, 1932, his government had been dependent on the support of seven Labor members who held the balance of power between Fianna Fail, his party, and Cumann na nGaedheal, the party led by William Cosgrave. William Norton, the leader of the Labor group, was also the chief official of the Postoffice Workers' Union. He had been trying in vain to prevent the government from reducing civil service salaries on Jan. 1. His ultimatum that he would fight "by every means at my disposal" assured Mr. de Valera's defeat whenever the Dail should reassemble, without the privilege of ordering a dissolution. The necessity of forming a new government in the recent evenly-balanced Dail would have added confusion to the already tangled condition of Irish politics.

The precipitancy of the election summons was calculated to embarrass Mr. Cosgrave, leader of the Opposition, whose party had lost ground during the year, but had begun to threaten a recovery during December by broadening its character to admit other disgruntled elements. Senator Arthur Vincent was doing his best to win over the National Farmers' League to alliance with Mr. Cosgrave and Lord Mayor Alfred Byrne of Dublin was organizing in his support the business elements of Dublin, which

had been hard hit by the tariff war with the United Kingdom. President de Valera acted just on the eve of the formation of a new party designed to include "all believers in peace by negotiation," thereby catching his opponents unprepared.

The government proposed to go to the country on its record. The abolition of the oath of allegiance and the discontinuance of the land annuities payments would constitute a powerful appeal to Irish nativism, which was intensified by the British reprisals. Mr. Cosgrave, on the other hand, could demonstrate the unfortunate consequences of the tariff war on public and private finance. The Irish trade deficit has increased, and the export bounties paid to assist the Irish producer to climb the British tariff wall have greatly increased the already serious budget deficit. The election, therefore, promised to be a struggle between the radical and conservative elements on all fronts—imperial, constitutional and economic. Government borrowing has postponed the effects in increased taxation of the general depression and the economic struggle with the United Kingdom, and the budget for the year has never been presented.

Unemployment in the Irish Free State has remained a serious problem, which threatened to be aggravated by a railway strike during December. After weeks of negotiation the government secured a postponement of 10 per cent wage reductions by promising to pay the railways an equal amount up to April 30. The government of Northern Ireland refused to follow suit, but the Northern railway workers secured a postponement until Jan. 23, pending a new session of the Wages Board. The railway workers accepted the necessity of some reductions in staff to meet the great decline in railway business.

The Republican extremists continued to disturb affairs. They demanded that President de Valera dismiss a

judge who had jailed two of their members for contempt of court. They also organized a boycott of British goods by public demonstrations and even by the destruction of British products. Mr. Cosgrave's "White Army" retaliated by providing escorts for imported goods, notably consignments of British beer.

#### CANADIAN AFFAIRS

Wheat prices and dollar exchange have recently been the most important questions in Canada. Wheat continued to be sold and exported, but at prices which were rapidly reducing farm owners to tenants. When Canadian exchange fell, export was facilitated, but when sterling fell as well the British market became less attractive. Great interest attached to the British Treasury ruling of Dec. 21 that a test consignment of Canadian wheat through the United States was not eligible for exemption from the British tariff. The Treasury ruling was based not on the question of the identity of the wheat as Canadian but on evidence of its original Canadian consignment to a named consignee in the United Kingdom; that is, the ruling was designed to prevent diversions, but also to make sure that the advantage of preference would be reaped only by Empire traders. A Buffalo storage concern must not be able to ship some of its Canadian wheat and receive the preference. One reason for this was that the British market could not absorb the full Canadian production and much of the surplus above British requirements was likely to be marketed by the Buffalo-Albany-New York route, which has normally accommodated 40 per cent of the Canadian crop.

On the other hand, the Treasury ruling seemed likely to increase the Winter use of Vancouver, St. John and Halifax, as well as to keep up the use of the Hudson Bay and St. Lawrence ports in the open season. The Canadian Government has equalized the freight rate from Georgian Bay to St.

John and Halifax with that to New York, so that Georgian Bay ports may well supersede Buffalo as wintering ports for the huge grain boats which supplement the elevators in Winter storage. Canadian railways would also profit, although on a purely economic basis it would cost less to move Western grain through New York than through Halifax.

The question of dollar exchange was aggravated by the November decline in Canadian dollars and in sterling and by the heavy obligations of Canada in New York in November and December. The Dominion Government assisted British Columbia to meet \$4,000,000 of maturities and Manitoba to meet \$6,000,000, but it declined to assist Western municipalities directly. Calgary, Alberta, tried to obtain such assistance and was directed to apply through the Province. The municipality decided to offer payment on Jan. 3 only in Canadian funds rather than pay \$300,000 for exchange, explaining that if the Dominion Government prevented the municipality from securing gold at par and exporting it, it must take the responsibility for Calgary's failure. The Bank of Montreal offered to lend the money, but was refused, and thereupon declined to extend further credit to the city. Saskatoon, Sask., accepted the bank's offer and met its obligations in New York.

The problem was a serious one, but not insuperable. The real cause for complaint lay in the difference between the actual economic position of Canada and the interpretation of it in the New York exchange market, that is, in a North American variety of the prevailing international confidence crisis. It is estimated, for instance, that Canada's total foreign obligations during 1933 amount to \$340,000,000, of which approximately \$205,000,000 is payable in New York funds and the remainder in Canadian funds in London. Using 1932 as a criterion, there could be set against that obligation over \$50,000,000 in



trade surplus, over \$60,000,000 in domestic gold production and from \$200,000,000 to \$250,000,000 in tourist balances. Canada not only has not defaulted, but during 1932 refunded \$80,000,000 out of \$105,000,000 in New York maturities. The Canadian dollar ought therefore to stand very close to gold parity, but in 1932 it ranged from 83.68 to 93.82 cents and on Jan. 3 stood at 88.62.

Probably the chief difficulty arose from having a trade deficit with the United States and a trade surplus with the United Kingdom. Canadian supplies of foreign commercial paper, which were handled chiefly in New York, thus created a bearish atmosphere in Canadian exchange. Canada was in the odd position of being vitally interested in two currencies besides her own, American for financial and British for commercial relations.

The trade figures for November were not as good as for October. Exports were \$45,945,000 (\$57,487,000 in 1931) and imports \$37,095,000 (\$45,933,000 in 1931), with a somewhat smaller trade surplus than in 1931. The decline in sterling and Canadian dollars and the influence of the Ottawa agreements were reflected in the continued diversion of trade from the United States to Great Britain. For the first time Canada imported more from the United Kingdom than in the corresponding month of 1931 and the classes of imports bore a striking relation to the Ottawa settlement. In textiles, wood products, iron products, aluminum, coal and chemicals, British products were supplanting American.

#### NEWFOUNDLAND'S PLIGHT

Newfoundland's at present insoluble economic difficulties have prevented her from obtaining the funds necessary for interest payments on her \$95,000,000 debt. Since it was quite impracticable for her to borrow more or increase her indebtedness because of her inability to increase the remun-

erativess of her productive economy, the British and Canadian Governments have assumed responsibility for about half of the \$2,500,000 in bond interest. Experts from the Dominions Office will attempt to arrange a debt-refunding plan. Canada's interest is explained by the fact that four Canadian banks and an oil company already administer a sort of receivership for the island.

#### AUSTRALIA AND NEW ZEALAND

Great Britain extended to Australia and New Zealand the moratorium on war debts, so that they were vitally interested in the Anglo-American negotiations. To their great relief, the moratorium has been continued in spite of the British payment to the United States, presumably because both Dominions are finding it hard to acquire sufficient foreign balances to meet their obligations. The Australian pound has recently been depreciated 25 per cent and the New Zealand pound 10 per cent from the British pound. The continued debt relief allowed Mr. Lyons in Australia to remit about £2,000,000 in taxation (chiefly the land tax) and to extend over £2,000,000 in assistance to the hard-hit wheat growers.

New Zealand had voluntarily offered to help the United Kingdom by making the debt payment, but was relieved when the offer was refused. The government's resources are being devoted to relief of unemployment by reducing the size of farm holdings in order to place more families on farms.

#### INDIAN CONFERENCE ENDS

The last round-table conference on the new constitution for India came to a close on Dec. 24 after having covered an immense amount of business. It did so because Sir Samuel Hoare's method was to present the government's proposals separately in very concrete form, to allow a short debate, to constitute a subcommittee and then to have it report back with a settlement. This procedure was

summary, but it reflected the belief that no settlement would satisfy everyone. It was hoped to draft a bill for submission to Parliament for discussion in March, to consign it to a joint parliamentary committee in the light of British and Indian representations in July, and to introduce the final legislation in October.

Sir Samuel Hoare refused to commit the government to a date for initiating the federal government, although it was believed that the new provincial governments might begin to function in 1934. A late proviso that an Indian reserve bank must be created as part of the safeguards for finance seemed to postpone the new central government for as much as five years. The British Government was very crisp in its insistence on safeguards which Hindu opinion in particular felt were so vague and loose as to threaten engulfing Indian responsibility at the centre. These safeguards took the form of the Governor-General's reserved powers in such matters as defense, foreign affairs, threats to internal peace and tranquillity, minorities, States' rights, credit and currency and commercial discrimination, and their scope was sufficient to justify Hindu fears. The question of the taxing powers of central and provincial governments and the allocation of income between them proved very difficult because of the present depression and the diametrically opposed views of many of the Princes and of the representatives of British India.

At the close of the conference Sir Tej Bahadur Sapru made an eloquent appeal for the liberation of Gandhi and the non-violent political prisoners, to which Sir Samuel Hoare replied so sympathetically that a New Year amnesty was freely predicted. But it did not materialize because, so it was reported, the Indian Government was opposed to it.

Gandhi kept up a curiously inconsistent struggle with the caste Hindus

during December over the right of access for Untouchables to the temple of Guruvayoor in South India. Sometimes he threatened fasts and sometimes suggested a referendum of the caste Hindus of the district. At first he said he would fast no matter how the referendum went, but he ended by offering to accept the result. The summary of the census of 1931, which has just been published, showed 40,254,000 of "exterior castes" out of 177,728,000 Hindus in the provinces.

The same summary showed a rise in the proportion of Moslems (222 per 1,000) to Hindus (682 per 1,000) which would be greatly accentuated by the separation of Burma from India. Now that the Moslems seem to have formed a congenial alliance with the English Conservatives, negotiations among Hindus, Sikhs and Moslems for an agreement on electoral distribution have become quite hopeless. A conference was called at Allahabad for Dec. 13, but disagreements in the constituent committee forced three successive postponements and it met only to hear the presidential address and dissolve on Dec. 16.

India ratified the principle of the Ottawa agreement on Dec. 6 and passed the embodying legislation on Dec. 15 by 74 to 27.

The new Burmese Legislature has been in a great quandary since its election. The alternatives then were separation from India or entry into the new federation. The success of the anti-separationists surprised them and led to two new proposals: separation from India but non-acceptance of the new Burmese constitution, and entry into the Indian federation with power to secede at any time. The Legislative Council was in great confusion while resolutions embodying the various proposals were debated. Finally, Sir Oscar De Glanville was elected president over several Burmese rivals and it was felt that separation with some modification of the new constitution would result.

# Premier Herriot's Resignation

By OTHON G. GUERLAC

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THE Herriot Cabinet, which resigned on Dec. 14 after an adverse vote of 402 to 187 in the Chamber of Deputies on the question of the payment of the debt to the United States, was four days later replaced by a Cabinet presided over by Senator Joseph Paul-Boncour.

Herriot's defeat was not a personal one. In fact, rarely has a Premier fallen from power in circumstances more honorable to himself and in the midst of such acclaim from his friends and respect and even admiration from his opponents. But the task he had undertaken was beyond the power of any government. As *Le Temps* expressed it, "a tidal wave starting in the depths of French democracy submerged everything," and no amount of argument or eloquence could stem it.

The notion already widely entertained in France, that the debts owing to the United States should be considered as America's contribution to a common cause, became a fixed dogma after the Hoover moratorium of 1931 and the Lausanne conference of June, 1932, at which France abandoned almost all German reparations. Rightly or wrongly, an overwhelming majority of the people felt that these sacrifices, which had been made at the suggestion or under the moral pressure of the American administration, called for a corresponding sacrifice from America. Therefore when the Washington notes refused the requests for the postponement and reconsideration of the debt, almost all the newspapers, various associations of veterans and an organization of young royalists, always ready for street brawls

with the police, combined to inflame public opinion and brought pressure to bear on a Chamber ever responsive to such outside influences.

The question of the payment of the \$19,261,432 instalment due on Dec. 15 came up in the Chamber on Dec. 12. M. Herriot opened the debate by an address lasting two and a half hours. He presented the whole question with matchless clarity and force. The Chamber listened eagerly to the first part of the speech in which he recited the French side of the controversy and approved of his analysis of the conditions under which the recent negotiations had been carried on. But when he finally examined the different solutions that were proposed and attempted to justify the government's choice of the payment with reservations in order to honor France's signature he encountered the resistance of the Right, the Centre and the extreme Left. Obviously the largest portion of the House remained untouched by either his logic or his eloquence.

The debate that followed Herriot's presentation was extremely tense and at times dramatic. The party against payment was represented by Louis Marin, the leader of the Nationalists, who claimed that the Hoover moratorium, by suspending the operation of the Young plan, had released France from the obligations she had contracted. M. Pernot, representing a minor group, argued that the principle of civil law which absolves a debtor from fulfilling his obligation when his creditor has rendered this fulfillment impossible applied also in international relations.

The governmental thesis found

some eloquent and skillful support outside the Radical-Socialists, especially in the stirring speech of M. Forgeot, representative of Marne, one of the favorite orators of the Chamber, who tried to revive feelings of gratitude for America's past services, and in the address of M. Pietri, a former Minister in the Laval and Tardieu Ministries, who said that "anger is not a good argument in international disputes" and that reason should have precedence even over right.

At first it had seemed that Herriot might, with his disciplined majority and the cooperation of the Socialists, triumph over the stubborn resistance of the remaining part of the Chamber. But when the two commissions of finances and foreign affairs, having taken cognizance of the reply that Secretary Stimson addressed on Dec. 11 to the British note refusing to entertain any reservations, reversed their first decision and presented a motion asking that payment be deferred; when, especially, Vincent Auriol, the financial expert of the Socialists, mounted the tribune to express the regret of his party at abandoning the Premier in a fight in which he had shown such courage and stated that the whole question should be referred for arbitration to the permanent international commission, provided for by the convention of 1928, it was obvious that the fate of the Cabinet was sealed.

The majority of the Deputies, either because of their deep-set conviction that they were right, or because they were cowed by popular clamor, which had been raging outside the Palais-Bourbon throughout the whole sitting, rejected the motion of M. Chauvin endorsing the government's policy. The hostile coalition was made up of Republicans of the Centre and members of the Right on the one hand, and, on the other, of the 127 out of the 128 Socialists, the ten Communists and even ten members of Herriot's own party. The government had on its side 137 Radical-Socialists and some fifty

members from the groups of the Left.

After this vote, which was followed by the withdrawal of the Ministers, the motions of the two commissions of finance and foreign affairs setting forth at length the reasons for the Chamber's action and calling for "deferment of the payment" was voted by 357 to 37. This was intended, M. Marin said, "to make the intentions of the Chamber known abroad."

President Lebrun, after consulting, according to custom, the presiding officers of the two houses and the leaders of the various parties, was soon convinced that no government could be chosen out of the heterogeneous Marin-Blum majority that had upset the Herriot Cabinet. In fact, the vote was in no sense a disavowal of Herriot, who personally had come out of the debate with enhanced prestige. Now that the Chamber had publicly registered its opinion for outside effect, many thought it would be possible for him to resume the direction of French policies. But President Lebrun, on adopting this suggestion, found Herriot absolutely obdurate in his refusal not only of the Premiership but of participation in any Cabinet that might be formed.

The President then turned to M. Chautemps, Minister of the Interior and devoted friend of Herriot. Chautemps, who is appreciated in the Chamber for his keen mind, his courteous manner and polished speech, though not enthusiastic, undertook the task of forming a Cabinet, in the hope that he would overcome his former chief's refusal to serve again. It required only twenty-four hours to show him that his hopes were vain and he gave up the task.

President Lebrun then appealed to Senator Paul-Boncour who, on Dec. 16 accepted the mission, and two days later succeeded in forming his Cabinet, the ninety-first of the Third Republic, composed of seventeen Ministers and twelve Under-Secretaries.

This is the first time that Paul-Boncour occupies the Premiership al-



though he has often been spoken of as one of the most promising men in French political life. A brilliant lawyer, he has been engaged in many notable cases, including some before the World Court. As an orator he has few equals either at the bar or in Parliament. He entered public life under the auspices of Waldeck-Rousseau in whose office he began his legal career, was assistant to Viviani at the Ministry of Labor in 1906, and became himself Minister of Labor in 1911. For several years after the war he was unable to participate in the government because in 1919 he joined the Socialist party, whose rules forbid such participation. When he had first entered Parliament in 1909 as Deputy of Blois he was classified as a Republican Socialist, an unorthodox variety of socialism unrecognized by the Marxists. In 1924 he became the representative of the electoral district of Jaurès in the department of Tarn. While Socialist party rules prevented his being a Minister, he was able to play an important part at the League of Nations, where he has represented France since 1924. In September, 1931, he was elected by his native department of Loir-et-Cher to the Senate. When he thus abandoned his constituency of Tarn, he also resigned from the Socialist party. He thus became free to accept Ministerial office, and when Herriot formed his third Ministry in June, 1932, he confided to Paul-Boncour the portfolio of war for which he was qualified not so much by his brilliant war record as by the active part he has taken at Geneva in all discussions and plans for disarmament and the organization of peace.

The incoming Premier was at first credited with the remark that he intended to do "something new," but to the press he said that "this Ministry is a continuation of the Herriot Ministry." The list of members indeed reads like that of the preceding Cabinet except for the absence of Herriot, Germain-Martin, René Renoult

and others, and the shifting of a few members from one portfolio to another. Thus Paul-Boncour himself passes from War to Foreign Affairs and Daladier from Public Works to the Ministry of War. The most striking change is Senator Henry Chéron's resumption of the portfolio of finance which he occupied in the Poincaré, Briand and Tardieu Ministries of 1929 and 1930. He is remembered as the watchdog of the Treasury who succeeded in accumulating a reserve of 19,000,000,000 francs (\$761,000,000) and whose cautious policies were then jeered at as those of a shortsighted and timid French bourgeois. It is feared that his economy measures may not satisfy the Socialist party.

Curiously enough, except for the Senators in the Cabinet, who were not given an opportunity to express themselves, all the members of the Cabinet voted with the outgoing Cabinet on the question of the debts.

The new Cabinet consists of the following:

JOSEPH PAUL-BONCOUR, president of the Council of Ministers and Minister of Foreign Affairs.  
ABEL GARDEY—Justice.  
CAMILLE CHAUTEPS—Interior.  
EDOUARD DALADIER—War.  
GEORGES LEYGUES—Marine.  
PAUL PAINLEVÉ—Air.  
HENRY CHERON—Finance and Budget.  
ANATOLE DE MONZIE—Education.  
HENRI QUEUILLE—Agriculture.  
ALBERT SARRAUT—Colonies.  
ALBERT DALIMIER—Labor.  
LEON MEYER—Merchant Marine.  
LAURENT EYNAC—Posts and Telegraphs.  
JULIEN DURAND—Commerce.  
ADRIEN MIELLET—Pensions.  
GEORGES BONNET—Public Works.  
CHARLES DANIELOU—Health.

The Under Secretaries are:

EUGENE FROT—Council Presidency.  
PIERRE COT—Foreign Affairs.  
RAYMOND PATENOTRE—Education.  
ALEXANDRE ISRAEL—Interior.  
PAUL BERNIER—Air.  
HIPPOLYTE DUCOS—Technical Education.  
PHILIPPE MARCOMBES—Physical Education.  
JEAN MISTLER—Beaux-Arts.  
GRATIE CANDAGE—Colonies.  
GUY LA CHAMBRE—War.  
ALEXIS JAUBERT—Agriculture.  
FRANÇOIS DE TESSAN—Labor.

The new Ministry which met the Chamber on Dec. 22 obtained a vote

of confidence of 379 to 166, in spite of the attacks of Louis Marin, who expressed his mistrust of the new Under-Secretary of Foreign Affairs, M. Pierre Cot, a very able young law professor and lawyer whose ideas on disarmament and on the revision of the Treaty of Versailles have often frightened even his own Radical-Socialist friends. The Socialists, however, gave their former associate Paul-Boncour, who has not lost their esteem, a promise of benevolent neutrality rather than a promise of support. The ministerial declaration read by the Premier stated the willingness of the government to bring the American and French viewpoints nearer together, and the Cabinet's foreign policies were expressed in the following well-balanced periods in which all nations with which France has had intercourse recently are paid proper respect:

"Only too happy to avail ourselves of any possibility of making our viewpoints coincide, we will conduct the negotiations with the firm purpose of preparing for a solution of the whole problem, so as to put an end to the handicaps to general economic recovery that result from intergovernmental debts.

"At the same time, and in entire accord with the States to which France is united by bonds of common aspirations [France's allies], and without thought of opposition to any third parties whatever [Germany], strong in the knowledge of effective friendship with across-the-Channel neighbors [England], proof of which friendship we recently received, and desirous of settling all difficulties which may exist between us and the countries to which we are bound by cultural ties and recent memories [Italy], we shall endeavor to succeed in concluding other international negotiations."

The Premier announced his intention of continuing the work of his predecessor at Geneva where he

"rescued the disarmament conference from uncertainties and delays."

M. Chéron on re-entering the Ministry of Finance was met with some perplexing problems. He announced to the Chamber on Dec. 23 that he found in the Treasury only 212,000,000 francs (\$8,268,000) as compared with the sum he left there in 1930. He therefore asked first the Finance Commission and later the Chamber for the permission to issue bonds for 5,000,000,000 francs (about \$198,000,000) to tide him over the period during which the budget must be voted. For the future he declared his intention of presenting a really balanced budget, which he considered less a technical than a political problem, and pledged himself to drop all useless public servants, to cease appointing new ones and to pursue tax dodgers with the utmost severity. The Chamber gave him its confidence by a vote of 348 to 235.

Speaking on Dec. 29 before 2,000 members of the Radical-Socialist Federation of the Seine, M. Herriot reviewed his past record. He explained his reason for staking and losing his Premiership on the principle of debt payment, by the fear that the American people would think France ungrateful for the considerable effort accomplished by the United States during the latter part of the war. "As much from gratitude as to preserve respect for my country, I wished that the signature given by a government preceding mine should be honored."

A majority of the Senate on Dec. 27 refused to vote suspension of the Parliamentary immunity of the three Senators, Schrameck, Jourdain and Viellard, whose names were mentioned in connection with the income-tax scandal.

#### FRENCH LOAN TO AUSTRIA

Before the French Parliament rose for its New Year recess both the Chamber and the Senate had to pass

on the bill authorizing the Treasury to guarantee a loan of 350,000,000 francs (\$13,700,000) to Austria to rescue the former enemy country from a serious financial plight. This was not passed without serious resistance. Louis Marin said that it was "monstrous" that France should, on the morrow of her refusal to pay America, guarantee a loan intended merely to help foreign banks to draw their frozen credits out of Austria. Pierre Etienne Flandin likewise declared that the loan was really for the reconstruction of the bankrupt Creditanstalt. Nevertheless, the measure was passed in the House by 352 to 188 and in the Senate by 144 against 68, about 100 Senators abstaining. It received the support of M. Herriot, who, resuming his post as leader of his party, said that the refusal to aid Austria would spell the failure of the system of financial assistance organized by the League of Nations.

#### BELGIAN CABINET CHANGES

The Belgian Cabinet presided over by Count de Broqueville resigned on Dec. 13 after voting to refuse the debt instalment of \$2,125,000 due to the United States. The refusal was explained on the ground that payment was impossible under Belgium's present financial conditions. The vote was unanimous after M. Theunis, who had negotiated the debt agreement in 1925, had explained the situation to his colleagues of the Ministry. The resignation of the Cabinet, however, had no connection with the debt problem. It was considered as the normal sequel to the elections of November called for by the Cabinet after the dissolution of Parliament.

In view of the composition of the new Chamber in which the Catholic party counts 80 members instead of 76 in the preceding house, the Socialists 73 instead of 70, the Liberals 24 instead of 28 and the Flemish Frontists 8 instead of 12, it seemed advisable to reconsider the composition of the

Cabinet. Four combinations could be considered, comprising the various possible coalitions: Catholic-Socialist, Liberal-Socialist, the tri-partite Catholic-Socialist-Liberal combination, and finally, the Catholic-Liberal alliance which has been operating for the last few years. After the refusal of the Socialists to share in the responsibilities of government the first three formations were out of the question and it was decided, not without protracted negotiations, to try again the Catholic-Liberal combination. That is the one that Count de Broqueville presented on Dec. 17. The new Ministry is composed of seven Catholics and five Liberals. Three members of the previous Cabinet left it, Georges Theunis, Boesse and Heyman being replaced by Devèze, Carton de Wiart and van Isacker, the first a Liberal and the two others Catholics.

The new Ministry like the preceding one contains the principal chiefs of both parties except M. van Cauwelaert. M. Hymans remains at the Foreign Office. Such as it is this combination seems sufficient to cope with the serious economic and financial problems that confront Belgium at the present time. It would, however, run the risk of a break-up if any of the contentious political questions were raised. M. Devèze consented to enter the Cabinet only for the period of national emergency. At the first encounter with the Chamber on Dec. 23 the new Ministry won a vote of confidence by 100 to 80.

The plan of the government for balancing the 1933 budget called for a saving of more than \$12,000,000 through reducing officials' salaries and military and old-age pensions. In addition it will be necessary to have recourse to increased taxation. Inheritance taxes will be raised and a special tax also is proposed for holders of import licenses who realize exceptional profits. It is estimated that the plan will provide a margin of 200,000,000 Belgian francs over the existing budgetary deficit of 1,800,000,000 francs.

# Von Schleicher as German Chancellor

By SIDNEY B. FAY

*Professor of History, Harvard University and Radcliffe College;  
Current History Associate*

THE appointment of General Kurt von Schleicher as German Chancellor on Dec. 2 relaxed the tension of the prolonged Cabinet crisis caused by von Papen's resignation. The tolerant attitude of the greater part of the German press toward the new Chancellor helped to create a beginning for something like optimism after the last two years of economic and parliamentary desperation. This more hopeful attitude, reflected in the sharp rise of German foreign bonds and a temporary truce in party conflicts, is no doubt partly induced by von Schleicher's extraordinary political ability and his combination of firmness of decision with a surprising breadth of interest and gentle persuasiveness of manner.

Attached to the General Staff during the war, von Schleicher first emerged as a figure of political importance in the late Fall of 1918, when the new Socialist Provisional Government was threatened by Communist uprisings and disorders. Young Major von Schleicher insisted firmly on the absolute necessity of organizing an efficient military force, independent of politics, which could prevent the country from falling into bolshevism and anarchy. He helped to build up the new Reichswehr as a reliable, effective and non-partisan force at the disposal of the federal government, and finally became its head as Minister of Defense.

General von Schleicher is likely to go down in history as even more of a statesman than soldier. His knowledge of economic, social and political affairs is as extraordinary as his grasp

of military matters. He has the reputation of never tackling anything without careful preparation. He would rather convince people than force them, but once he has set his mind on a plan he will carry it out. During the years of his activity in the Reichswehr Ministry he built up a staff of collaborators who were devoted to him. Many of them are today in high positions outside the Reichswehr Ministry. He listens to their advice, but his final decision is loyally accepted by them. That has been the situation for several years, and it is one of the reasons for his astonishingly powerful position after the fall of the Brüning and von Papen Cabinets. [For further details of General von Schleicher's career, see *CURRENT HISTORY*, October, 1932, pages 20-24.]

On Dec. 4 General von Schleicher donned civilian clothes, formally moved into the Chancellery, and within forty-eight hours after his own appointment announced his new Cabinet. With the exception of Dr. Bracht, Dr. Syrup and Dr. Gereke, the Cabinet was recruited from members who held office and gained experience under the similar "Presidential Cabinet" of von Papen.

In addition to becoming Chancellor and "continuing to conduct the affairs of the Reichswehr Ministry until further notice"—a phrase chosen by President von Hindenburg to emphasize his conviction that the army must remain free from political influences—von Schleicher was also appointed Federal Commissioner for Prussia, as Colonel von Papen had been. Thus he has under his own control both the



Prussian police and the Federal Army.

An interesting addition to the Cabinet is the Commissioner for the Promotion of Employment, Dr. Guenther Gereke, who is directly under the Chancellor. He is the author of the Gereke plan, a widely discussed project for remedying unemployment by land-settlement and agricultural relief. He is also the only man connected with the Cabinet who has served in the Reichstag.

Fundamentally the new Cabinet accepted as its program the carrying out of the von Papen policies, the only difference being that it hoped to establish more amicable relations with the Reichstag by making some concessions to the trade unions, by dropping for the present the question of constitutional reforms and by adopting a conciliatory attitude toward the various Parliamentary groups.

General von Schleicher's skill as a politician was seen in his successful dealing with the Reichstag when it met on Dec. 6. Instead of coming before it with a threat of dissolution if it tried to pass a no-confidence motion, he sought to win its support for a political truce over the Christmas holidays, which would give him a month's freedom of action in developing his program. He thereby succeeded in disarming the active opposition of most of the parties except the National Socialists and the Communists.

The Reichstag session was opened by a violent speech from the 82-year-old Nazi, General Litzmann. His election had been secured by the National Socialists, so that the privilege of making the opening speech, which goes to the oldest member, should be made by one of their own party, instead of their having to listen, as in the previous session, to the 75-year-old Communist member, Clara Zetkin. General Litzmann's characteristic Nazi theme was that "millions of Germans revere Hitler as the outstanding German of his day, and as the man who after fourteen years of study alone knows

how Germany can be saved." He then launched into an attack on President von Hindenburg, declaring that he owed his Marshal's baton to General Litzmann's own troops in the battle of Lodz.

The Communists and some other groups strenuously demanded that the new Chancellor expound his program before the Reichstag took its Christmas recess, but their motions were voted down.

One positive piece of legislation, however, was adopted in the three-day session. The National Socialists introduced a bill to amend Article 51 of the Federal Constitution, which provides that if the President of the Reich is temporarily disabled, his duties shall be taken over by the Chancellor. In view of President von Hindenburg's age this is a matter for serious consideration. The Nazi amendment, which was adopted, stipulates that in case of the President's disability his duties shall be taken over, not by the Chancellor, but by the President of the Supreme Court. Incidentally it helps to place a further obstacle in the way of any possible attempt to bring back, directly or indirectly, any member of the Hohenzollern family. Whether the National Socialists would have championed such an amendment if Hitler had been appointed Chancellor may be seriously doubted. In fact, it was discreetly hinted in competent quarters that a chief reason why President von Hindenburg twice declined to appoint the Nazi leader to the Chancellorship was this very constitutional provision which has now been amended in favor of the Chief Justice of the Supreme Court.

After a three-day session, marked by considerable physical violence between the National Socialists and Communists, the Reichstag voted to adjourn over the Christmas holidays. As it neither insisted that von Schleicher submit his program, nor tried to pass a no-confidence motion, its action almost amounted to a kind of negative

vote of confidence. The new Chancellor, on informing President von Hindenburg of the adjournment, is reported to have said: "Victory all along the line." It is noteworthy that this was the first time since 1920 that a new Cabinet has been spared the ordeal of being haled before the Reichstag before it was allowed to proceed with its program. After the experiences of Brüning and von Papen it seemed like a Parliamentary miracle, but the secret lay partly in von Schleicher's conciliatory attitude toward the Parliamentary leaders, and partly in the inability of the parties to cooperate effectively because of their hostility toward one another.

Over a nation-wide hookup on Dec. 15 the Chancellor, talking for almost an hour, outlined the program of his Cabinet. He said that he asked to be regarded, not as a soldier, but as the impartial trustee of the interests of all in an emergency, which he hoped would be short-lived. "Bayonets are not easy to sit on, and one could not govern long without a broad popular sentiment behind one. I should be satisfied if the Reichstag, while remaining provisionally mistrustful, would give the government opportunity to carry through their program without interruption and the familiar Parliamentary methods."

"My program," he continued, "consists of one single point: the creation of work. All the measures that the government will carry out in the coming months will more or less serve this one purpose. Recent journeys throughout the country have convinced me that Germans of all classes are dominated by only one thought: 'Give us work; we are not interested in constitutional changes and other such petty things which fill no stomachs.'" He added that he was neither a capitalist nor a Socialist; that he could not be bothered by economic doctrines, and that in order to fight unemployment he would not mind adopting promising measures, even

though they might not be in line with orthodox economic reasoning. He promised, however, that there would be no inflation, and the cooperation of the Reichsbank president, Dr. Luther, guaranteed this. Nor would there be new taxes or further cuts in salaries.

One of his principal measures for decreasing unemployment, he said, was Dr. Gereke's project for land settlement. As Minister of Defense, he himself attached special importance to the colonization of the Eastern provinces, since men living on their own acres are the best bulwark against the pressure of an alien stock. Therefore the 1933 budget would include 50,000,000 marks for settlement, and the Reichsbank would cooperate in advancing a further 50,000,000 marks (or a total of \$23,800,000). Land to the extent of 1,300,000 acres would be made available in the thinly populated Eastern frontier districts "for inner colonization like that of Frederick the Great."

The success of this program, he continued, presupposed healthy agriculture. Unfortunately, a statesman was confronted by all sorts of economic doctrines, with the result that the Minister of Agriculture believed in economic self-sufficiency and agrarian tariffs, while the Minister of Economy was a free-trader. He confirmed what had heretofore been regarded only as a legend, the story that he recently locked both Ministers into a room and told them to come to an agreement by midnight; and they did. As a result of this agreement, the Chancellor said, the government would try to maintain the present high level of agrarian production and, therefore, would use tariffs to support the prices of such important agricultural products as milk, vegetables and wood, and at the same time would try to expand industrial production by promoting the domestic market but without neglecting foreign markets. For all these measures he begged cheerful cooperation on the part of all classes.

Continuing, the Chancellor said that there was no better school for youth to learn the meaning of self-discipline, modesty and comradeship than conscription. That was why he came out again and again for compulsory service in the framework of a militia. As long as the Versailles Treaty made this impossible, other means had had to be found. To start with, the individual associations had taken a hand. Then the State had assisted; the Reich Board for the Physical Training of Youth, the voluntary labor corps and subsidized sports were the fruits of these efforts.

Conscription led the Chancellor to the subject of disarmament. He had been reproached, he said, with marching in with clumsy military boots and smashing much diplomatic crockery. He had also been reproached for talking of rearmament. But the clumsy method had consisted simply and solely in the fact that he had told the truth quite frankly, because he still considered that the best way to reach an understanding. "We are prepared to arm ourselves with knives and cardboard shields if our neighbors do the same. But that does not sound exactly like rearmament." He had also declared that the German people was not disposed unhesitatingly to let its throat be cut—that is to say, that its armed forces must be guaranteed the same security as everybody else's. He felt that the Five-Power Geneva Agreement had been a big step forward and expressed the belief that if the League of Nations really succeeds in transforming the idea of a general disarmament into fact, it will have a new foundation for its activities in other spheres.

In conclusion, the Chancellor pledged the abolition of a number of emergency decrees, such as those restricting the press, inflicting extraordinary penalties for political rioting, and so forth, because he believed the country had become peaceful again. But he warned the Communists that he would

not hesitate to take the most drastic emergency measures against them if they abused their new freedom to increase demagogic activities.

On the whole, with the exception of the National Socialists, the Chancellor's speech was favorably received by the German press and contributed to the more optimistic feeling with which the year closed in Germany.

#### A LOAN TO AUSTRIA

France was severely criticized by many of her own leaders in voting a loan to Austria after failing to meet her debt obligation to the United States on Dec. 15. But the French action, together with that of other powers, did assure to Austria the realization of her hope for a loan of \$45,000,000, for which the preliminary arrangements were made at Lausanne last June. France's reasons for making the loan were political—to prevent the Austro-German Anschluss at least until 1953, for this is one of the conditions of the loan. For the same political reason the loan has been bitterly criticised by pan-Germans in Austria and by some of the press in Germany.

#### NEW SWISS PRESIDENT

Federal Councilor Edmond Schulthess, President of the Swiss Republic in 1917, 1921 and 1928, has been elected for a fourth time as President during the year 1933. President Motta, his predecessor, also enjoyed four terms. Thus the Swiss people show their conservatism, and their confidence in political leaders who have served them well. President Schulthess rose in politics rapidly. When he was 25 years old he was entrusted with political office in his native canton of Aargau. In 1905 he was chosen to represent his canton in the Federal Assembly, and in 1912 was elected to the Federal Council. Here he assumed the direction of the Department of Industry, Agriculture and Commerce, and during the war distinguished himself as Food Administrator.

# Italy Turns to Economic Planning

By WILLIAM E. LINGELBACH

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ITALY has become conscious of the economic evils arising out of haphazard and uncontrolled production, and during the past month the Ministry of Corporations, under Mussolini's presidency, has, with characteristic energy, attacked the problem. Through a special commission of the Ministry the Duce is preparing a comprehensive plan for the regulation of industrial output, especially of certain "exuberant branches of industry." Under a law presented by him to the Deputies and adopted by that body, no "industrial plant may be built or enlarged without the consent of the government. Without interfering with that initiative and expansive spirit so essential in times of prosperity \* \* \* those irregular industrial expansions that are dictated by bankers' rather than by manufacturers' standards cannot be permitted." Details of the new law, which is to be submitted in the Spring, are being worked out by the commission.

In the meantime an extensive program of public works, at a cost of \$130,000,000, was inaugurated early in December. More than 250,000 of Italy's 1,038,000 unemployed were thus to be given work during the Winter. The program involves the electrification of the trunk-line railroads and construction of roads, bridges, public buildings, aqueducts, harbor improvements and so on. For those who remain unemployed, Fascist relief work is effectively organized through the thousands of local Fascist clubs. By order of the Pope, the churches will also cooperate.

Gratifying too is the report on the "Battle of the Wheat." On Dec. 4

farmers from every province gathered in Rome in the great agricultural exposition hall to receive from Mussolini's own hands the reward for their increased production. The yield for the year 1932 came within 8 per cent of the nation's normal consumption of 300,000,000 bushels. The campaign was inaugurated ten years ago by Mussolini's newspaper, *Il Popolo d'Italia*. In 1925 the Duce himself took command. This year he proudly announced that the average yield of wheat in Italy was now 21.5 bushels per acre, as against 15.2 before the war. Incidentally, the propaganda for improved wheat farming has carried with it many improvements in Italian agriculture generally. Agricultural experts and special schools have been educating the farmers in the advantages of good seed, the use of fertilizers, scientific breeding, drainage, building of silos, cooperative buying and marketing and opportunities of short-term financing for both the tenant farmers and the big proprietors.

Nevertheless the depression continues, the Ministry of Finance anticipating a deficit of about \$163,000,000 for the next fiscal year. This is more than double the amount of the deficit for the current year. The items showing the largest increase on the debit side are the railways (extra expenditures), interest charges on the public debt, land-reclamation works and credits to agriculturists. In the circumstances Italy's prompt payment of \$1,250,000 to the United States on the war debt must be interpreted as being based on political rather than financial considerations.



In the face of this, Mussolini's order on Dec. 2 for the construction of two light cruisers and two destroyers has caused a good deal of unfavorable comment. Their construction, however, is only a part of the 1931-32 program, temporarily suspended when Dino Grandi made his proposals at the Geneva Disarmament Conference for a year's holiday in naval construction. Furthermore, the spokesmen for the government point out that the new vessels will only replace tonnage that is now obsolete. Early in the month the annual military census was made, in accordance with the Fascist policy not only to keep the country prepared but to keep constantly before the nation ideals of patriotism and sense of military obligations.

Mussolini on Dec. 18 issued a decree announcing what is the equivalent to civil service examinations for 6,000 administrative positions in the government. The candidates must be young men belonging to the Fascist party. They will replace older officials about to be retired and pensioned and incidentally strengthen the Fascist hold on the State.

#### MUSSOLINI'S RISE TO POWER

To the Editor of *Current History*:

Describing in *CURRENT HISTORY* for October, 1932, the negotiations which took place between Mussolini and Salandra on Oct. 28, 1922, for seats in the Cabinet which Salandra was trying to form, I asserted that these negotiations were cut short when Aldo Finzi, a friend of Mussolini, took the telephone receiver from Mussolini's hand and declared to Salandra "that he must make way for Mussolini."

In a cable from Rome on Oct. 25, 1932, Signor Finzi categorically denied having played such a rôle in Mussolini's rise to power. My version is based on the following testimony, signed by G. Schiff-Giorgini, and dated Paris, June 10, 1927:

In the afternoon of Oct. 28, 1922, toward 7 P. M., the King, after having refused to sign during the morning of the same day the decree placing the country in a

state of siege, thought to be able to solve the crisis by asking Signor Salandra to form a new Ministry.

Signor De Vecchi telephoned from Rome to Mussolini, offering to him and to his friends four portfolios, on condition, however, that these portfolios should be neither the Presidency of the Council, the Ministry of Foreign Affairs or the Ministry of the Interior.

Mussolini was in the editorial offices of the *Popolo d'Italia*, in the telephone room. In the adjoining room were Signor Finzi and Signor Schiff-Giorgini.

Mussolini started to discuss, over the phone with De Vecchi, the number and kind of portfolios offered to him and it was evident that he was ready, in principle, to participate in the Salandra Ministry. At this moment, Signor Finzi rushed upon Mussolini and, wrenching the receiver from his hands, shouted: "The Black Shirts will march on the capital; blood has already been shed; no agreement is possible; there is but one solution possible — the Mussolini Ministry!" After this he cut off the conversation.

Mussolini meditated for a moment and, addressing himself to Signor Finzi, said: "You are right."

If one has to choose between Signor Schiff-Giorgini's testimony and Signor Finzi's contradiction, the reader will ask who of the two men should be believed. The answer can be easily found, if one considers that (1) during the preliminary inquiry into the Matteotti murder, Finzi, in his testimony of July 4, 1924, denied writing a certain statement of which he in later testimony, on Nov. 15, 1924, had to admit he was the author (see my *Fascist Dictatorship in Italy*, pages 303-305); and that (2) Signor Finzi lives in Italy under the control of the Fascist dictatorship.

GAETANO SALVEMINI.

New Haven, Conn.

#### SPAIN'S NEW REGIME

The newly elected Catalan Cortes met on Dec. 6 in the beautiful Captain-Generalcy, which is to be its regular meeting place. It is the first Catalan Parliament since 1705, about the time Philip V captured Barcelona and abolished the privileges and local institutions of the State. Of the

eighty-five members of the Cortes sixty-seven belong to Colonel Macia's Esquerra party, seventeen to the Lliga Regionalista, led by the rich banker and land owner, Señor Cambo. The two Communist parties failed completely in the elections, getting less than 8,000 votes altogether. Joan Lluhi, a young man of 35, has been chosen Premier, and the Parliament will doubtless make Colonel Macia the first regular President of the Catalan republic. A picturesque figure, the white-haired provisional President has fought for Catalan liberties for twenty-seven years, suffering exile and many hardships. The program of the government as outlined in the party platform is to build up Catalan institutions, cooperate with the central government at Madrid and, when fully established, seek a further extension of Catalan rights.

In the meantime, the Spanish Cortes is transforming the nation's institutions and slowly building up a new social and economic order. Already the power of the church has been destroyed, the aristocracy and the great land owners ruined, and the army, that former bulwark of royalty, broken. In the short period of twenty months old Spain has been largely made over. The great estates of many of Spain's grandees have been confiscated; according to a national survey which has just been completed for half of the country, 1,709,370 acres, valued at approximately \$40,000,000 have been taken over by the State. The estimate for the remaining half points to an even larger confiscation, which means that the republic now has in its possession for distribution more than 3,000,000 acres of the best lands of Spain. While the law provides for an indemnity to the former owners, confiscation for reasons of disloyalty to the republic obviates the necessity. Besides, under the plea of urgency, where a labor crisis exists, the land may be taken over "discretionally" and payment,

even for cattle and machinery be deferred.

Lay schools are replacing church schools; 7,000 new government schools have been added to the 37,716 which existed at the time of the fall of the monarchy. According to the Minister of Education, 27,000 more are to be erected to combat the prevailing illiteracy. The salaries of 59 per cent of the teachers have been raised, and a loan of 400,000,000 pesetas [at par the peseta is worth 19.3 cents] has been floated by the national government, the municipalities on their part promising to raise 200,000,000 also. On the other hand, the suppression of church schools and of teaching by religious orders is being ruthlessly carried out. On Dec. 23 the recommendations of the Parliamentary Budget Committee concerning the support of the clergy were radically amended so as to take away all government support from the priests after Nov. 11, 1933. The measure will deprive more than 40,000 parish priests, whose other sources of income are very meager, of the small government subsidies. The army has been remodeled, equipped with up-to-date weapons and officered by young republicans. The administration, too, has been completely reorganized and thousands of young people drawn into the service. Despite strong opposition, Premier Azaña—under pressure from the Left—has consistently rejected all offers of compromise and continues to move steadily in the direction of a dictatorship dominated by the Socialists.

Powerful government newspapers like *El Sol*, *La Voz* and *Luz* are spreading Socialist and republican ideas among the masses. Not content with this, they are carrying on a bitter campaign of denunciation against all opposition papers and even the foreign press is not immune. During December the London *Times* was made the object of a violent attack because of certain articles by its correspondents

favorable to the old régime and for its support of a measure for the creation of a tribunal of constitutional guarantees. The government's abuse of its power in suspending opposition newspapers has been the subject of much criticism. Among the 100 or more newspapers suspended after the abortive uprising of the monarchists early in August was *ABC*. In its first issue, after 111 days of suspension, it protested against the arbitrary action of the government, pointing out that it had cost the owners nearly \$20,000.

Economic problems continued to occupy attention. Strikes and labor disturbances fomented by the Communists late in November and early in December were kept well in hand. About the middle of December a railway strike was threatened because the companies refused to increase wages as demanded by the Socialist General Union of Workers. The Minister of Public Works, Señor Prieto, himself a Socialist, held out firmly against the demands of the union, declaring that, while respecting the right to strike, he was also responsible for the maintenance of communications and would have to see to it that service was maintained.

On the financial side the republic is entering troubled waters. Expenses for 1931 exceeded revenues by 600,000,000 pesetas, while revenues for the first nine months of 1932 have fallen off 250,000,000 pesetas.

In its foreign relations the republic has manifestly come to a cordial understanding with France. Following the rumors of an accord after ex-Premier Herriot's visit came the report of a Franco-Spanish railway express project through the Somport tunnel through the Pyrenees. The line will

furnish rapid communication between France and Morocco. In the opinion of many it is closely linked up with the government's military policy as outlined in Premier Azaña's remarkable speech to the Cortes. "Next year," he said, "we will continue the reduction of our forces in Morocco, where it is evident that the less we spend the better." The rest of the address, however, was in a different tone. "We desire," he said, "to cut the costs of war to the last peseta, depending upon the universal conscience of the civilized world for peace. There is only one flaw in that. Some day, maybe in Europe or elsewhere in the world, \* \* \* there may be a war, and that would find us unprepared to maintain our integrity. No one is the master of his own peace. Not even the League of Nations can guarantee it. The dignity of Spain demands that we prepare for this occasion."

Difficulties over the contract of the National Telephone Company continued during the month, the daily press hinting at rumors of a possible rupture with the American State Department. Fortunately, reasonableness has prevailed. Agitation in the Cortes for the confiscation of the company's contract and properties subsided. A new telephone board has been appointed and it is expected that the contract of 1924 will be modified so as to be more favorable to Spain. The wider implications of the controversy have not gone unnoticed. Unfavorable action by Spain involving violation of contract and the seizure of the company's properties might well serve as a precedent for similar action in countries, especially those of Latin America, where foreign interests and investments are important.

# The Little Entente and the Treaties

By FREDERIC A. OGG

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THE Foreign Ministers of the Little Entente—Czechoslovakia, Yugoslavia and Rumania—for the first time held a meeting outside the usual routine annual conference. When they met at Belgrade on Dec. 18 disarmament, the economic reorganization of Central Europe, including Germany and Italy, and the reparations being paid by Germany's eastern allies were discussed, but the meeting appears to have been concerned principally with the reappearance of the revisionist phantom, as a result of recent speeches by Premier Mussolini and Winston Churchill and of the French admission at Geneva of the principle of equality of status for Germany and the other defeated powers. The Little Entente realizes with dismay that the financial clauses of the peace treaties have already gone by the board, that the military clauses are under severe cross-fire, and that only the territorial provisions of the settlement still have a chance of surviving.

At the close of the conference a communiqué reported complete unity among the conferees and announced the appointment of a permanent council consisting of the three Foreign Ministers and of a permanent secretariat, whose seat may be at Geneva. Nothing was said in the document about revisionist propaganda. It was understood, however, that Yugoslavia, at whose instance the meeting was held, wanted an express condemnation of the alleged revival of such propaganda and of Italy for supporting it, while Czechoslovakia and Rumania demurred. Rumania's general atti-

tude relieved some of the apprehension of her associates that she might reorient her foreign policy in the direction of Rome in response to overtures that have recently been made by Italian diplomacy.

## POLAND AND DANZIG

A new atmosphere in the relations between Poland and Danzig was brought about by the signature on Nov. 26 of a treaty which put an end to a number of disputes that for years have contributed to a strained situation along the eastern frontier of Germany. Since the good offices of M. Rosting of the League of Nations, High Commissioner at Danzig, smoothed the way for the agreement, people who believe in the League's usefulness as an agency of international conciliation again have reason to rejoice. In addition to an adjustment of various economic matters the treaty contained provisions for removing the ban placed on various newspapers, the introduction of a uniform currency for Poland and Danzig, recognition by Poland of the judgment of the World Court on the legal status of Polish subjects in Danzig, and a number of other subjects hitherto in dispute. On the whole, Poland made the greater concessions, and in that way implemented her oft-expressed desire for satisfactory relations with the Free City.

Although it had been reported that opinion in Warsaw favored paying to the United States the \$3,070,980 due on Dec. 15, in case of a definite refusal to postpone payment, Poland was one of five European countries which de-



faulted on the date mentioned. Among considerations influencing the decision were (1) that the zloty was at the time firm but might suffer serious impairment from a drain of gold; (2) that payment would necessitate further cutting of official salaries or other economies deemed undesirable; and (3) that unless payments on war debts were reduced the country might be unable to meet other obligations considered even more important—those under the two loans for \$90,000,000 floated in the United States in 1925 and 1927. It was generally believed that the government would in no event consider reprisals, such as a prohibitive tariff on American cotton or repudiation of the pending trade agreement with the United States. On Dec. 20 Foreign Minister Beck asserted that his government had never refused to pay the United States, but was merely holding out for a more advantageous form of payment.

Three days of student rioting between Jews and anti-Semites at the end of November caused the universities of Warsaw and Lwow and various other institutions to be closed for a period. Strong protests against attacks on Jewish students were lodged with the Minister of Education by the Jewish National Council, the Jewish Community Council at Lwow and similar organizations.

#### YUGOSLAV FOREIGN RELATIONS

Relations between Yugoslavia and neighboring States were unusually tense during December. As a consequence of a series of incidents on the Bulgarian border Minister Vukitchevitch on Dec. 5 delivered to the Sofia government a sharply phrased note declaring that Bulgaria had failed to suppress terrorist activities directed against Yugoslavia and announcing that, Bulgaria's failure to live up to the terms of the Pirot agreement of 1930 having left Belgrade in a position where it must alone assume responsibility for secur-

ity of the frontier, that section of the Pirot convention guaranteeing the right of peasants through whose property the frontier line passes to go back and forth across the line was to be regarded as canceled. Already protected by two rows of barbed wire, trenches and armed patrols, the frontier, even where cutting through peasant farms, seemed likely to be hermetically sealed.

Meanwhile, Yugoslavia was herself the object of similar castigation in Italy. On the night of Dec. 1 seven carved stone Winged Lions of St. Mark—symbols of former Venetian sovereignty—were destroyed in the Yugoslav town of Trau, and this, with other happenings, caused four interpellations to be made in the Italian Senate and Chamber. In the Senate on Dec. 14 Premier Mussolini vigorously denounced the acts of vandalism and declared that their effect on Italian feeling was "profoundly significant." He also accused Wickham Steed, former editor of the *London Times*, of fomenting trouble by his charges that Italy and her Balkan allies were planning aggression against Yugoslavia. Mussolini held not only Yugoslavia but also "other European elements" — undoubtedly meaning France—responsible. Student demonstrations against Yugoslavia were reported from all parts of the country, and it was commonly considered that relations between the two States had never been worse. It was also generally conceded, however, that Italy was strongly devoted to peace, and consequently more disposed, if affairs went from bad to worse, to call upon the League than to resort to force.

During the last week of December a number of prominent Englishmen, including Lord Noel Buxton, Sir Gilbert Murray and H. A. L. Fisher, followed up a visit to the western provinces of Yugoslavia with a strong appeal for a revision of the country's constitution on federal lines, with a

view to ameliorating the present intolerable conditions and lessening the danger of intervention by hostile neighboring governments.

#### FINANCIAL TROUBLES

In general, Czechoslovakia's position throughout earlier stages of the depression was more favorable than that of most of her neighbors. In 1932, however, she began seriously to feel the pinch, and not only did she make a fruitless appeal to the United States to be allowed to withhold debt payments due in December but found the task of balancing her budget for 1933-34 more difficult than had been anticipated. A special Parliamentary committee of seven worked on the problem for three weeks, cutting 900,000,000 crowns (at par the crown is worth 2.96 cents) from the departmental estimates and making various proposals for new taxation. Though ordinarily the budget is prepared, as elsewhere, by the Ministry of Finance, it seemed in early December that the committee's plan would be accepted by both Cabinet and Parliament.

In a highly pessimistic report on the country's financial position, made public on Dec. 23, Edward R. Tyler, League of Nations Commissioner, showed that Hungary's exports for the last three months of 1932 were only 57 per cent of the amount in the same period of 1931. Clearing agreements with other countries facilitated the importation of unnecessary goods but not the exportation of Hungarian agrarian products, and the government was able to fulfill only an insignificant part of its obligations to foreign creditors. Income for the quarter was far below the estimates; government measures to protect agrarian debtors had not contributed to balancing the budget, and service on the League loan of 1924 was not being met. On the same day the government announced its decision to prolong the transfer moratorium on foreign debts for another full year.

Early in 1932 a two-and-a-half-year moratorium on the Greek war debt to the United States was agreed upon. In November the Greek Government defaulted on the interest due on an American refugee loan of \$12,000,000 made in 1929, and in December was hesitant about paying on the principal, on the ground—said to have been suggested by ex-Premier Venizelos—that this loan, too, is a "war loan." As a result of differences in the Tsaldaris government on the matter, Finance Minister Anghelopoulos resigned on Dec. 16. Three days later the Greek Minister to the United States was instructed to inform the State Department at Washington that the Greek Government was holding the sum due, but would not release it until the question of whether or not the loan is a war loan had been settled by arbitration. The Permanent Court at The Hague was suggested as a suitable agency to which to refer the dispute. Meanwhile, the bankrupt government, as a measure of economy, disbanded an entire army corps and reduced the period of military service from eighteen months to twelve.

Following an unfavorable report by M. Watteau, League of Nations adviser to the National Bank of Bulgaria, a special delegation of the League Financial Committee arrived at Sofia on Dec. 13 to inquire into the country's finances. Enough was known in advance to lead the committee to insist that continuous supervision be exercised from Geneva and that a commissioner in the person of René Charron be placed in control of the national budget. Strong public resentment, however, was aroused, and the attitude of all of the political parties quickly became such that no government, it was believed, could be organized which would assent to the plan, or, assenting, prove able to weather the opposition. At the end of December no formula capable of appeasing the national feeling had been discovered.

# Depression Reaches Scandinavia

By SIDNEY HERTZBERG

THE year 1932 saw the Scandinavian nations overtaken by the full force of the world economic depression. Their previous escape might be attributed to three circumstances. Sweden, Denmark and Norway were neutrals during the World War. Consequently, they were spared the malignant burden of war debts, reconstruction problems and armies of cripples and invalids. The steady and reasonably profitable trade relations which these nations enjoyed with Great Britain and Germany were perhaps the fundamental reasons for their comparative prosperity. Lastly, the fact that they enjoyed a higher degree of competence and enlightenment in their public officials—reflecting, possibly, the more widespread existence of such attributes in the electorate—than did most nations, may be mentioned as a contributory factor. However, this untimely respite came to an end with the coming into effect of the British imperial trade agreements concluded at Ottawa and the general heightening of tariff barriers and with Germany's determination to strengthen her domestic economic position.

In Sweden this turn of events was complicated by the collapse of the Kreuger companies. Although that country's financial system was strong enough to absorb the blow and prevent disaster, it is in a weakened condition. The necessity for government support of the important Skandinaviska Kreditaktiebolaget, the bank most seriously endangered by the crash, has meant an increase in the State debt of 214,000,000 kronor, bringing the total indebtedness to 2,200,000,000 kronor (the par value of the krona is 26.799 cents). Of the 899,000,000 kronor total loss on securi-

ties during 1932, the Kreuger companies were responsible for 684,000,000 kronor. A decline of about 6 per cent in the taxable income of Stockholm is also attributed to Kreuger losses.

The current budget is expected to show a deficit of approximately 50,000,000 kronor, which will probably be met from sinking fund appropriations. On the present basis of taxation it is estimated that the 1933-34 budget will confront the Social Democratic Ministry with a deficit of 90,000,000 kronor. Income tax and customs revenues are expected to continue their decline; and provision will have to be made for unemployment relief. Prime Minister Hansson was expected to propose to the Riksdag reductions in the items for national defense and increases in the liquor tax, which is comparatively low in Sweden. A reduction in the defense budget of about 20,000,000 kronor would be accomplished by the suspension or curtailment of compulsory military training and of naval building.

The total number of Swedish unemployed at present is estimated at 200,000 in a population of just over 6,000,000. The estimated average return on capital in agriculture, on which more than 40 per cent of the people depend for a livelihood, is 2 per cent.

In Denmark the problem of unemployment is more serious than in Sweden or Norway. Government calculations show that 35.6 per cent of the 316,757 working people covered by the statistics are out of work. A year before the percentage was 22.1. On top of this it is reported that, when the important collective agreements ex-

pire next Spring, Danish employers intend to demand general wage cuts of 20 per cent. The employers justify their position on the ground that the Danish wage level is higher than in any other country in Europe and that reductions would stimulate business. The trade unions declare they will not negotiate on the basis of a 20 per cent cut. They have denied vigorously that lower wages would improve economic conditions.

Within the past few months, Great Britain, Germany, France, Holland and Belgium have restricted their imports of Danish agricultural products. Exactly how disastrous the abolition of free trade in Great Britain has been to Danish agriculture can be seen in the fact that more than 80 per cent of all Danish agricultural exports, which means nearly 70 per cent of all Danish exports, go to Great Britain. In spite of disappearing markets, there has been no serious diminution in the output of agricultural produce. During the first nine months of 1932 bacon exports increased by 7 per cent in quantity but declined 10 per cent in value. The volume of egg exports increased 20 per cent, while the value of these exports went up only 9 per cent. Butter exports declined 6 per cent in quantity and 20 per cent in value. Killings of pigs for the British market broke all records. In the meantime insolvency among farmers is growing and it is estimated that the total indebtedness of the agricultural industry increased last year by about 200,000,000 kronor. [The par value of the Danish krone is 26.799 cents.]

The government's control of imports and exports through the foreign exchange law, which was extended for a year by both houses of the Riksdag on Dec. 6, seems to be responsible for a favorable balance of trade. For the first ten months of 1932 there was an export surplus of 7,900,000 kronor, while for the same period in 1931 the import surplus was 88,400,000 kronor.

The government has drawn up a special list of products which may be imported without the "currency licenses" necessary under the foreign exchange law. This list comprises about 35 per cent of all imports, and it is estimated that in spite of the restrictions importers will be able to do about 90 per cent of their 1931 business.

It is reported that the Danish Government will issue a big loan shortly to finance extensive relief measures. Denmark's fiscal affairs have always been exemplary, but the decreased income from existing taxes and the possibility of a deficit in the 1932-1933 budget may mean new forms of taxation. A limited moratorium on farm mortgage interest is also contemplated to aid agriculture.

Norway's national finances are also showing signs of strain because tax returns have not come up to expectations. The Ministry of Finance estimates that the 1932-1933 budget deficit will be about 35,000,000 kronor. [The par value of the Norwegian krone is 26.799 cents.] Customs revenues, railway incomes and income and beer taxes have all fallen below the original estimates. To meet the deficit the Cabinet proposed on Dec. 11 a turnover tax on all retail trade except milk, cream and certain kinds of bread. This tax is being frantically opposed by the commercial interests. In October, 1932, 35,082 applicants for work were registered with the Norwegian employment exchange.

By resorting to such methods as reduced wages, lowered standards of living, increased consumption of domestic industrial products, decrease of luxury imports and greater efficiency of industrial production, Finland has been able to remain standing in the battle for foreign trade. From January to September, 1932, the value of Finland's exports totaled 3,285,500,000 finmarks while imports amounted to 3,162,900,000 finmarks. [The par value of the finmark is 2.5815 cents.]



# Results of the Five-Year Plan

By EDGAR S. FURNISS

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OBVIOUSLY the objectives of the program under which the Soviet Union has been living for the past four and a quarter years have not been fully achieved and for that reason the second Five-Year Plan, announced many months ago, is no longer effective. The month of January was to be devoted to important meetings of party and governmental councils to decide upon a course of action. The All-Union Central Executive Committee—the Parliament of the Soviet Federation—postponed its scheduled session from Jan. 10 to Jan. 20 to allow time for a meeting of the Central Executive Committee of the Russian Republic which was to convene on Jan. 12. Russia is the largest and most influential of the seven republics in the Union, and since it comprises over 90 per cent of the Union's territory, 70 per cent of its population and most of its dominant industries, its decisions in all important matters prevail throughout the country.

Some indication of the trend of policy during the coming year was given in a recent statement by D. Sulimov, chairman of the Council of People's Commissars of the Russian Republic. He forecast a large reduction in Soviet capital investment in 1933, as compared with 1932, and a shift of emphasis from heavy to light industries; as a result the capital for investment in the latter group of enterprises would be doubled. In general there will be no new construction in the large-scale industries, whose forced development characterized the program of the past four years. Instead of further expansion

the object will be to operate existing industrial equipment effectively, an end which has not yet been achieved. Some of the largest of the new plants, though technically completed months ago, have never really begun production; many others are operating at such high costs and producing grades of such a poor quality that they are scarcely an asset to the economic life of the country. During 1933, the government's efforts will be concentrated upon the problem of expanding output, reducing costs and improving the product of these new-born enterprises. The proposal further calls for a concentrated effort to relieve the distress of the people by increasing the output of household goods, the product of the light industries. Such a program bears slight resemblance to the ambitious second Five-Year Plan and apparently the next twelve months will be set apart as a year of grace for the overcoming of the more glaring deficiencies of the first Five-Year Plan.

Behind this change of program is the food crisis, whose development has been traced in these pages during the past few months. The official press describes the situation as urgent. Grain collections in December still lagged behind government requisitions. On Dec. 21 the new Commissariat for State Farms publicly attacked the whole State farm system, describing the record as "shameful." These farms were planned as models of agrarian enterprise and as a practical demonstration of socialism in agriculture. They were established on land of the highest quality and fully equipped with machinery. Neverthe-

less, a week after the date for the completion of their year's program they had accomplished on the average less than 80 per cent of their task in terms of grain requisitions, while some of the largest of them had completed little more than half their schedules. The records of the collective and the private farms were equally unsatisfactory at the end of the year. Food shortage, an ever-present problem in the cities, began to appear as a novel phenomenon in certain of the principal grain growing regions, leading to an unprecedented drift of peasants to the cities in search of food. Restrictions on rations were tightened throughout the industrial centres, while it began to seem probable that Soviet Russia, one of the world's most fertile grain areas, would be obliged to import foodstuffs before the Spring harvest became available.

The poor records of the State and the collective farms are attributable to different causes, and are to be overcome by different remedies. In the case of the State farms the blame is laid directly upon the managers. The task of operating State enterprises embracing, as numerous State farms do, many thousands of acres of land and an army of hired workers, has proved to be beyond the ability of the officers assigned to it. In the public statement referred to above, the Commissariat of State Farms proposed to solve the problem by means of threats, ordering the arrest and trial of managers who failed to complete their assignments without delay. In the case of the collective and private farms the reason for the shortcomings is quite different. Here the government itself bears part of the blame because its new industries have failed to provide in full the farm machinery whose assistance was taken for granted in planning the schedules of agrarian production for the past year. But this is of minor importance as compared with the attitude of the

peasant who has withheld his cooperation from his political masters. In planting and harvesting alike, he has worked half-heartedly and has responded reluctantly to the government's demand for a share of his product. The reasons for this attitude are not far to seek. With the market bare of the goods which he needs, his money returns meant little to him, and he lacked the incentive to put forth his labor.

Underlying this situation, and therefore responsible in the last analysis for the agrarian crisis, was the policy of the Five-Year Plan to force the growth of heavy industry at all costs. Capital and labor were deflected from the light industries producing consumers' goods, the importation of household wares was prohibited in order to continue the inflow of foreign machinery; while the home market was drained of goods which could be exported to cover the trade indebtedness. This policy, under the most favorable conditions, would have seriously affected the Russian standard of living and the progressive collapse of world markets during the past four years has added proportionately to the common burden.

The Kremlin has proposed to overcome the passive resistance of the peasants by means which combine firm discipline with an appeal to economic self-interest. No concessions will be made which undermine the principle of socialization and no open defiance of the government in the matter of grain collections will be tolerated. The solemn warnings broadcast by the newspapers have been enforced by the official infliction of severe penalties, including one death sentence upon a recalcitrant peasant group in the Moscow Province. This determination to preserve the basic principles of their program is to be supported by certain changes of policy intended to win the voluntary cooperation of the peasants by increasing their economic rewards. The most

far-reaching of these changes was mentioned above—the shift of emphasis from the heavy to the light industries. This implies a fundamental alteration of the economic plan. If successful it should result in rapid improvement of the conditions of life among the common people and a corresponding change in their attitudes, for not only does it contemplate a doubling of the productivity of the light industries, but it obviates the necessity of exporting consumers' goods and makes possible their importation. It is hoped by these means to increase the purchasing power of farm commodities in terms of factory products.

By stressing the adverse circumstances of the Soviet Union we are in danger of implying that the great Communist experiment has proved a failure. No such conclusion is warranted by the facts. The shortcomings of the Five-Year Plan are glaring enough when measured against the control figures projected for its final year—some 40 per cent deficiency for industry on the average, and about an equal deficiency in agriculture. These disappointing figures, it must be remembered, merely mean that the rate of increase over the preceding year has fallen below expectations. The record for 1932, outside agriculture, did show substantial gains as compared with 1931. Moreover, when comparison is made with conditions prevailing when the plan was launched, one cannot fail to be impressed by the accomplishment of the four and a quarter years as a whole. The announcement of the Five-Year Plan in 1928 was greeted with derision and incredulity by the conservative world. A survey of affairs at the end of 1932 shows that while the "mark-up" of the schedule figures by the Soviet leaders at the end of the second year was an act of extravagant optimism, the original objectives which were condemned as impracticable by the outside world have been virtually at-

tained. The Soviet Union has equipped itself with the basic capital structure upon which to erect a new industrial society. The expansion of material equipment has undoubtedly outstripped the skill of the human element, both managerial and laboring, with the result that the new plants are operating on a low plane of efficiency, but the Soviet Government is bending every effort to correct this maladjustment by increasing the discipline of labor, and by a gigantic program of technical education which embraces the entire laboring population from the lowest to the highest ranks.

The cultural phases of the Five-Year Plan have received too little attention from a world preoccupied with economic concerns. The plan is more than an economic program; it embraces the entire life of the nation—education, health, social relationships, cultural activities, as well as the material side of life. In its non-economic branches the plan has scored real achievements. The educational program, for example, has virtually abolished illiteracy; it has established the principle of compulsory school attendance for all children, and it has brought to the youth of the nation a comprehensive system of vocational and technical training. Another striking example of these phases of the Five-Year Plan is the health program. Recently, John A. Kingsbury, former Commissioner of Public Charities of New York City, and Sir Arthur Newsholme, former chief medical officer of the Local Government Board of England, surveyed the accomplishments of the public health activities of the Soviet Union. The former, in a report of his observations, described the Soviet health program as "unquestionably the most comprehensive in the world today." He pointed out that there are now eight vast polyclinics in Leningrad and twelve in Moscow; 106 special research institutions and 37 medical colleges in the Union, and

that the health services of 160,000,000 people are efficiently integrated and administered on a nation-wide scale. These achievements in the domain of education and health are typical of the little known non-economic branches of the Five-Year Plan.

Care must be taken in any attempt to appraise the success of the Communist experiment not to confuse details with essentials. The Communist régime is characterized by three features: the principle of a planned economy; the method of minority dictatorship; the objective of socialization. These have survived the vicissitudes of the world-wide depression and appear now to be more firmly established than ever. The economic plan may have miscarried in detail, but there is no danger that the principle itself will be abandoned. Nor is there the slightest indication of popular revolt against the dictatorship as represented by the official government. Within the Communist party, too, the present leadership has successfully overridden all factional challenges and is at this moment demonstrating its power by launching a thoroughgoing *Chistka*, or purging of the party membership, which will remove hundreds of thousands of lukewarm fol-

lowers from the ranks. It did seem last Summer that the food crisis would force the Kremlin into a policy of disastrous compromise with the objective of socialization, but before the end of the year control over the market had been re-established and the party councils had rejected all temporizing expedients. The new industrial enterprises remain in government ownership and under government management; the socialistic structure in agriculture, represented by the State and collective farms, has suffered no substantial damage; management of the labor supply has been made more rigorous and more comprehensive by a firmer control of the food ration, and by means of a new domestic passport system, announced on Dec. 28, which determines the place of residence and indirectly the employment of every citizen above the age of 16 years. The immediate purpose of these labor policies is to return millions of workers to the farms and thus to relieve the cities of a useless population, but they also place in the hands of the government power to direct the economic effort of the people as a whole toward preordained goals and thus to control the productive life of the nation.

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## The Anglo-Persian Oil Dispute

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By ALBERT HOWE LYBYER

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PERSIA and Great Britain, having found each other adamant in regard to the dispute which arose out of the former's cancellation of the Anglo-Persian Oil Company's lease, have now asked the Council of the League of Nations to pass upon their claims.

The British Government on Dec. 2 intervened in the dispute on behalf of the Anglo-Persian Company and pro-

tested officially against the annulment of its concession. In reply the Persian Government reasserted its position and washed its hands of responsibility for any damage that might be suffered by the properties involved.

This attitude was made the subject of an attack in the House of Commons on Dec. 5 by Captain Anthony Eden, Under-Secretary for Foreign Affairs, who stated that the British Govern-



ment would "not tolerate any damage to the company's interests or any interference with its premises or business activity in Persia," and would take all legitimate measures for the protection of its interests. This was followed on Dec. 8 by the announcement that, if the Persian Government did not withdraw its cancellation by Dec. 15, Great Britain would refer the matter to the World Court. Meanwhile, the Persian Government would be held responsible for damages and, if Persia could not afford protection to the company's property, the British Government reserved the right to do so.

Much resentment was felt in Persia at the intervention of the British Government. After three days of deliberation, the Council of Ministers, presided over by the Shah, replied to the British notes. Nine reasons were given for canceling the concession, and the jurisdiction of the World Court was denied on the ground that the dispute existed between a government and a private company. The Persian Government then announced its intention to complain to the Council of the League of Nations in regard to "the threats and pressure" used by the British Government. On Dec. 14 the British Government asked the Council of the League to consider the dispute, thus abandoning its proposal to refer the question to the World Court. During a debate in the Persian Parliament on Dec. 15 the Foreign Minister denied that Persia was motivated by ill will toward the British Government, the company or any foreigner. The Persians, he said, "only demand the rights which they will by every means and method seek to obtain." Persia requested the League Secretariat to have the Council meeting delayed until Persian representatives had time to reach Geneva. Preliminary consideration was given to the matter by the Council on Dec. 19, and a date for the opening argument was tentatively set for Jan. 23. It was expected that by that date representatives of Persia would have prepared their

case and arrived at Geneva. As is customary in dealing with such cases the president of the Council urged the disputants "to refrain from any act or step that might aggravate or extend the dispute."

The Persian Parliament on Dec. 20 ratified the cancellation of the lease. Hussein Khan Alai, who was formerly Persian Minister to the United States and France, and who is reputed to be Persia's ablest diplomat, was chosen to head the Persian delegation. Foreign Minister Foroughi asserted that the "intrusion" of the British Government prevented an amicable agreement between Persia and the Anglo-Persian Company. He denied that Persia had been influenced by foreign interests in her decision to cancel the lease, and asserted that the Persian Government and people had no designs upon the properties of the company. Persia desired only to receive her just share of the profits, in order to complete her plans for road building and industrialization.

It is significant that on the same day that these moderate sentiments were expressed by Foroughi the Persian Parliament ratified a treaty of friendship and neutrality with Turkey, and ordered war vessels from Italy and military airplanes from Germany.

#### *TURKEY RESTRICTS NARCOTICS*

For many years the non-cooperation of Turkey has been one of the chief obstacles in the way of controlling the international trade in narcotics. But it appears that Turkey is at last willing to do her share to restrict the evil. On Dec. 25 a Cabinet meeting presided over by President Mustapha Kemal decided that the three narcotic factories in Istanbul, which were closed recently, should not be allowed to reopen. It was further decided to restrict the cultivation of the poppy to medicinal needs and to set up special courts to try smugglers and illegal manufacturers of drugs. Finally, it was announced that Turkey would ad-

here to the international conventions which limit the trade in narcotics.

Turkey's diligent search for minerals has been rewarded by the discovery near Mount Ararat of a gold deposit that is expected to yield \$300,000,000. Signs of petroleum have also been found and the government will ask the Assembly for an appropriation with which to begin the exploitation of these resources.

During the last three months of 1932 the Turkish Government relaxed some of its restrictions on foreign trade, but did not by any means abandon its policy of regulation. In general the import quotas announced for the first quarter of 1933 were higher. But the quotas were reduced for automobile parts, batteries, radios and motion-picture films, a restriction that is unfavorable to American trade.

#### LOCAL GOVERNMENT FOR PALESTINE

Sir Arthur Wauchope, High Commissioner of Palestine, made his annual report to the Mandates Commission of the League of Nations on Nov. 10. He stated that the British Government had not changed its intention to set up a legislative council in Palestine, but that a new local government ordinance must first be put into operation. The Jews of Palestine are for the most part opposed to the creation of a council, holding that the country is not yet prepared for such a degree of self-government and that the body would only be a cockpit of political strife. Arab opinion, on the other hand, is favorable to a council, but with the reservation that Arab acceptance must not be taken to imply acquiescence in either the Balfour Declaration or the Mandate.

#### EGYPTIAN PARTY POLITICS

In Egypt, the Wafd, or Delegations party, has been torn by dissension for some weeks over the question of cooperating in a limited way with Premier Sidky Pasha's government or of con-

tinuing its policy of rigid opposition. Involved in this is a challenge to the leadership of Mustapha Pasha Nahas. On Nov. 20 a meeting of party leaders expelled Gharably Pasha and several other moderates. Continued political agitation and attempted bombings have prompted the Prime Minister to forbid public meetings.

Parliament opened on Dec. 15 with a brilliant ceremony. The King's speech dwelt upon public improvements, such as water and electric systems and new canals and hospitals. The government has arranged with the chief mortgage banks to take over unpaid instalments of farmers' loans, extending their term to thirty years and reducing the rate of interest from 9 to 5 per cent.

#### IRAQI FRONTIER ADJUSTMENT

The Council of the League of Nations on Nov. 25 approved the frontier line between Syria and Iraq which was recommended by the Council's commission of inquiry. The boundary was drawn in such a way as to leave the Sinjar Mountain in Iraq, thus avoiding a division of the small sect of the Yezedis, or Devil-worshippers, between the two countries.

The League on Dec. 15 disapproved the demand of the Assyrians for administrative autonomy within Iraq. The Council commended the Iraqi Government for its intention to employ a foreign expert to assist in settling all landless inhabitants, including the Assyrians.

The plan to hold a Pan-Arab congress at Bagdad under the leadership of King Feisal to discuss the formation of an Arab federation is meeting with difficulties. The cooperation of two powerful and independent Arab sovereigns, King Ibn Saud of Saudi Arabia and the Imam Yahya of the Yemen, has not yet been secured. In addition, certain influential Arab nationalists are opposing the congress plan on the ground that the contemplated federation would fall under British control.

# Japan's Diplomatic Isolation

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THROUGHOUT December Japan, despite some apparent improvement of her position in Manchuria, was losing ground in her all-important international relations. This may account for the sensational action of Japanese troops on Jan. 3 in reducing the Chinese city of Shanhaikwan to "smoldering ruins" and then occupying it. Such further defiance of the League and flaunting of world opinion can be accounted for only as a desperate attempt of the Japanese military to restore an imperiled prestige.

Shanhaikwan is the gateway at the Great Wall through which the Peiping-Mukden railway passes into Manchuria. It is also the gate from the sea to Jehol. Having now taken up a strong position inside the Great Wall, Japan is prepared to advance from the south as well as from the east into Jehol, and, at the same time, is able to make excursions toward Tientsin and Peiping. General Moto at Changchun and both the Foreign and War Offices in Tokyo declared that the attack upon Shanhaikwan was unexpected and was provoked by the Chinese, but it was reported from China that Japanese representatives regarded it as the first major step in the long-expected reduction of Jehol. Foreign observers are looking for still further advances into North China, with Peiping as a possible objective.

From Chinese sources the explanation is offered that this new offensive is an answer to the recent order of the central executive committee of the Kuomintang to General Chang Hsiao-liang to strengthen the Chinese forces around Shanhaikwan. It was alleged

by Dr. V. T. Soong that on Dec. 31 Mr. Yano, Counselor of the Japanese Legation in Peiping, called upon General Chang to explain the action of the central executive committee. The General admitted that he was ordering to Shanhaikwan 20,000 troops to reinforce the 30,000 already there. The next day the fighting at Shanhaikwan began.

Many rumors have been put into circulation regarding the immediate cause of the hostilities, but, if the Chinese version is to be credited, the Japanese provoked the fighting, just as they did at Mukden on Sept. 18, 1931, and again in Shanghai a few months later. Similarly, too, the action appears to have been taken without direct authorization from Tokyo and without previous consultation with the Foreign Office.

The significance of this new movement can best be understood when approached through the chronological sequence of events since the Assembly of the League of Nations received the Lytton report from the Council early in December.

China and Japan may both be likened to chemical elements which because of their unstable nature are required to seek combinations with other elements. It simplifies the problem to keep this likeness in mind when we are searching for the main political currents which swarm through the Far East and Geneva at the same time.

China is condemned, by lack of cohesion and lack of power to mobilize its strength, always to be searching for a political combination. Japan, like-



Jehol, Japan's New Objective

wise, is condemned to the same search because, while there is no lack of cohesion or ability to muster the national resources for a specific objective, the resources themselves are so severely limited that only in combination with some other power or powers can Japan ever hope to sustain its present political position.

The natural political affinities which both Japan and China must seek are substantially the same. Associated together they would constitute a formidable political power; this, at present, is the Japanese objective, although it may be seriously doubted whether the measures chosen to accomplish the purpose are judicious. Other possible combinations for Japan are with the United States, as in the period of treaty revision (1872-94); with Great Britain, as in the famous Anglo-Japanese alliances (1902-22); with France, as in the decade following the dissolution of the Anglo-Japanese Alliance; or, with Russia, as in the series of

Russo-Japanese agreements which followed the Treaty of Portsmouth and which were terminated only by the advent of the Soviet régime in Russia. The Chinese affinities, aside from Japan, are, on the one hand, the United States, which, with more or less consistency from an early date, has taken China's side against the European powers, and on the other, Russia, with whom there have been alternate periods of hostility and alliance, and notably, the alliance of 1896.

The most sensational news in December was the resumption of diplomatic relations between the Soviet Union and China, but the full significance of this development is best observed, not in the Far East but in Europe, especially in Geneva, where China has been so plaintively searching for a political combination which would stand the strain of these extraordinary times. The significance of the new understanding between China and the U. S. S. R. is magnified by its accompanying phenomenon, the visible tension of Russo-Japanese relations and the understanding reached in Europe on Nov. 29, under which France, such an obvious supporter of Japan in recent years, signed a non-aggression pact with the Soviet Union. Apparently, therefore, while Japan has in the last month appeared to be holding its own at Geneva, its relative international position has weakened significantly.

The Japanese campaign at Geneva to defeat the Lytton recommendations opened, not in Europe but in Manchuria and in Moscow. Yosuke Matsuoka, on his way to Geneva, stopped in Moscow, where conversations were continued for an understanding between Japan and the U. S. S. R. which might have resulted, not only in a non-aggression pact but also in formal Soviet recognition of Manchukuo. For a few weeks there were optimistic rumors from Japanese sources that the relations of Japan and Russia were becoming increasingly satisfac-



tory. On Dec. 6, when the debate in the Assembly on the Lytton report opened, the Japanese diplomats were evidently confident that they had the passive, if not active, support of Russia. A week later they were rudely disillusioned by the declaration that Russia had resumed diplomatic relations with China. Reference to this is made later. Suffice it, for the moment, to point out that Japan suffered defeat at Moscow.

Obviously timed also to influence action at Geneva was the very aggressive campaign in Manchuria against General Su Pin-wen, who controlled the western section of the Chinese Eastern Railway and the vast area west of the Kinghan Mountains. Japan sought to demonstrate that it actually had the potential mastery of Manchuria. The drive against General Su was announced on Nov. 28. In a series of well-executed drives, beginning near Tsitsihar, the Japanese pushed westward, meeting only feeble opposition except from the weather. At the Kinghan Mountains, where the Chinese Eastern Railway passes through a tunnel, the Japanese were surprised to encounter practically no opposition. The Chinese failed even to blow up the tunnel, perhaps because of a lack of explosives. The Japanese pressed rapidly on, captured Hailar and, on Dec. 6, entered Manchuli. General Su and the much-killed General Ma crossed with their volunteers into Soviet territory. The U. S. S. R. promptly interned Su, Ma and their followers, and declined to extradite the alleged rebels to Japanese jurisdiction. Japan took control of the railway and was now in a position to march south into Barga. Immediately there were rumors that Japan would turn her attention to Jehol and that she might even start the long-expected drive into North China. For three weeks there was a breathing spell.

The astonishing announcements, already referred to, that China and the

Soviet Union had already resumed diplomatic relations stunned the Japanese Foreign Office. Japan was robbed at Geneva of the second tactical advantage which had been an important feature of the proposed diplomatic and military strategy.

We come now to the main show—the Japanese before the Assembly of the League of Nations. On Nov. 28 the Lytton recommendations were referred by the Council without comment to the special meeting of the Assembly convoked for Dec. 6. Japan recorded its objections but acquiesced in the decision and for the moment it appeared as though Mr. Matsuoka had won a point since the Council had passed no vote of censure against Japan. In the Assembly the small powers had their opportunity. The Irish Free State, Czechoslovakia, Sweden and Norway, objecting to the way in which Japan has thus far defied the League, pressed for the adoption of the Lytton report and for the reaffirmation of the Stimson principle of non-recognition.

The great powers, in measured phrases, gave their views on Dec. 7. France, Great Britain, Germany and Italy stressed the necessity for co-operation and deplored any action by the Assembly that would prevent its acting as a conciliator. The view was generally accepted that the Soviet Union and the United States should be invited to join in the attempt at conciliation. Perhaps the most significant statement was that of M. Paul-Boncour that the League was under obligation to find a solution and that if conciliation failed there would be no alternative save to make a report under paragraph 4 of Article XV. Such a report would almost certainly lead to the invocation of sanctions. Thus it turned out that in Geneva Japan appeared to have lost the support of France upon which she had counted a few months earlier.

Matsuoka took up the challenge and replied that Japan had counted the

cost. He declared that, rather than change her policy in Manchuria, Japan would undergo the severest sanctions. This declaration was made thirty-six hours after the capture of Manchuli, when Japan was flushed with recent military success. Dramatically Matsuoka cried that Japan was prepared even to be crucified, and then he alluded to the new understanding with Russia, of which he appeared to be very confident. He urged the League to take a hint from what he expected Russia to do. Again, for the moment, Japan seemed to win a point. The Assembly without further debate adopted a mild, non-committal resolution which referred the Lytton report to the Committee of Nineteen, but without in any way passing upon the questions which the small powers pressed. In other words, the Assembly failed to uphold the Lytton report; it merely shifted the responsibility to the committee, which became an agent of conciliation.

The Committee of Nineteen, which met on Dec. 12, was dominated by Sir John Simon, the British Foreign Secretary. Avoiding again the reaffirmation of the non-recognition doctrine, the committee busied itself with framing a resolution which would refer the Sino-Japanese dispute to a subcommittee to which Russia and the United States would be invited to send representatives. Having framed the resolution after his own wishes, Sir John Simon departed from Geneva and Mr. Matsuoka asked for formal instructions from Tokyo. The committee adjourned for the holidays. The subcommittee of five took up the work of conciliation. From Tokyo on Dec. 17 came rejection of the proposal that Russia and the United States be invited to join the subcommittee and also objections to the suggestions in the resolution that the Nine-Power treaty and the Lytton recommendations be used as guiding principles for the work of the subcommittee. The Japanese War Office was very positive. On the other

hand, one has a feeling that Japan, like Samson, has been shorn of some of its strength; that Tokyo was not speaking at Geneva quite so defiantly as it did three months ago. If this be true, the explanation is not difficult.

Until the debate in the Assembly Japan counted upon support which is now melting away. France failed to take the line which would be helpful to Japan, even though destructive to the League. Sir John Simon carried the Japanese load at Geneva, but, at the same time, Sir Francis Lindley, British Ambassador at Tokyo, was instructed to warn the Japanese Government that if Japan persisted in obstructing League efforts at conciliation there would be no alternative but the application of sanctions under Article XVI. This warning was delivered on Dec. 13. Most serious of all, however, was the announcement, the day before, of the resumption of Russo-Chinese diplomatic relations.

At the very moment that Sir John Simon was successfully laboring in the Committee of Nineteen to set up a subcommittee, the majority of which would not be too harsh in its judgment of Japan, came the thundering announcement of Maxim Litvinov, Soviet Foreign Commissar, that he and Dr. W. W. Yen had exchanged notes for the resumption of diplomatic relations between Russia and Japan. It was a dramatic turn in the sequence of events, the importance of which may be great. The Litvinov-Yen notes put an end to the Japanese dream of Soviet complacency toward the Far Eastern situation.

The response of the Japanese Foreign Office was more than petulant; Walter Duranty characterized it as "one of the strangest outbursts of spleen in diplomatic history." The Foreign Office charged the U. S. S. R. with double-crossing under the cloak of friendship and blustered about a more "definite" policy toward Russia, "without scruples." Tokyo sought to arouse public opinion by waving the threat of the Red menace. "Uniting

the two disruptive forces of the Far East — Russian communism and the Chinese chaos," declared the Japanese spokesman, "is a menace not only to the peace of the Orient but to that of the entire world." Passing over the question of how chaos may be disruptive, and why it is more sinful for China to resume relations with Russia than for Japan to seek an understanding over Manchukuo, one wonders in what respect the new Russo-Chinese entente can be more disrupting to the Far East and more threatening to world peace than Japan's policy in the last sixteen months. Evidently Japan's nerves are taut, even to the point of breaking. Of some significance, also, is the fact that the world, now grown accustomed to these alleged threats of the Red menace, appears to have accepted the new situation with a great deal of complacency. The simple fact is that Japan has lost an important trick in a game which she cannot afford to lose.

Thus within a few weeks Japan has seen the failure of one after another of the international political resources upon which she had been relying. She is now more nearly politically isolated than at any time since the close of the Sino-Japanese War, thirty-seven years ago. Immediately following the resumption of Russo-Chinese diplomatic relations the Soviet Ambassador in Tokyo, Mr. Troyanovsky, offered Japan a non-aggression pact. Japan has not acted upon the question. Tokyo desires a settlement of existing differences after which it is willing to discuss a non-aggression treaty; Moscow desires to begin the negotiations for the settlement of existing differences by a pledge that the settlement shall be arrived at only by pacific means and this Japan is not yet prepared to promise.

Throughout the month America was quiescent. The reference of the Lytton report without endorsement to the Committee of Nineteen was interpreted by many officials in Wash-

ington, outside the Department of State, as practically a repudiation by the great powers of the Kellogg Pact and the Nine-Power Treaty, which many Senators appear now to regard as dead. Democrats have displayed some satisfaction in declaring that the Stimson policy of non-recognition has been practically repudiated by the League. Such a conclusion seems, however, quite premature. It is often predicted that the new administration will adopt a new policy in the Far East and will also recognize Soviet Russia.

In plotting the curve of American policy in the Far East it is necessary to take the long view. That policy has swung between the two extremes of intervention and non-intervention, the latter, more nearly than the former, having been the rule. By intervention is not meant anything as narrow as mere military intervention. At the present time the pendulum appears to be in the midst of a new swing. Where it will stop cannot now be predicted. The acquisition of the Philippines in 1898 was the manifestation of a policy of intervention. So were the open-door notes of the following year. The recent passage by Congress of the Hawes-Cutting bill, which looks definitely toward the independence of the Philippines in ten or a dozen years, at the moment when the United States is pursuing actively a policy of pacific intervention in Manchuria, would seem to indicate that American sentiment is on one of its periodic swings toward non-intervention. The adoption of the clear principle of Philippine independence, however, does not stand alone as a straw in the wind. The naval limitation and non-fortification agreements of the Washington Conference eleven years ago also pointed toward a settled policy of non-intervention. While the Washington treaties remain, American influence in the Far East can never take the ultimate form of military intervention on a major scale.

The principle of the integrity of China and the ill-fated Knox neutralization scheme were interventionist, as were the re-creation of the consortium in 1918 and the military operations in Siberia. The Stimson policy has been in line with many precedents, but the hesitant acceptance of the Stimson doctrine by the American people and the free predictions that the policy will be quietly abandoned by the next administration raises the question whether the United States may not, within a few years, swing clear of the interventionist policy and, so far as the Far East is concerned, return to the implied principles of the Monroe Doctrine. It should be recognized, however, that, if American public opinion were in the immediate future to complete the swing just indicated, the exclusion of American trade from Far Eastern markets in the next generation might very plausibly induce a new swing of American opinion which would bring the United States back to an interventionist policy of such dimensions as have not been hitherto even contemplated.

#### JAPANESE DOMESTIC POLITICS

Facing a birth rate of four babies per minute, a budget 70 per cent above the revenue, and a yen worth only 40 cents on the dollar, the Japanese Diet opened on Dec. 26 to receive the budget and then promptly adjourned to meet again on Jan. 24. The Saito Cabinet is leading a precarious existence, for it faces the growing dissatisfaction of the Seiyukai party, which has an actual majority. The Seiyukai leaders are reported to have avoided forcing the question largely because of the uncertainty as to whether, if the present Cabinet were overthrown, the army and Nationalists would permit the creation of a party Cabinet. The most favorable symptom is that, owing to the fall of the yen, Japanese export trade is just beginning to enjoy what is described by the *Japanese Advertiser* as the "biggest boom since the hysterical

days of World War activity." Especially notable has been the increase of exports to British India, the Dutch East Indies, East Africa, Egypt and Australia. Some of the exports showing the largest gains are tinned fish, alcoholic liquors, beer, vegetable products, cotton yarns, rayon cloth, bicycle tires and lamps. It is not to be expected that this boom will last very long, but until the prices in Japan rise in correspondence with the actual inflation of the currency and credit, it will be a very welcome drop in what is otherwise a very leaky bucket.

#### THE KUOMINTANG REGIME

The third plenary session of the central executive committee of the Kuomintang opened at Nanking on Dec. 15. General Chiang Kai-shek and Wang Ching-wei dominated the assembly. Representatives from Canton were conspicuous by their absence, Sun Fo, son of Dr. Sun Yat-sen, being the only prominent Cantonese present. While Canton is virtually independent, Nanking is being permitted to continue to direct foreign affairs. Many of the prominent northern Chinese were also absent.

The most significant action of the committee was a manifesto in defiance of Japan. It was a mild declaration but appears to place General Chiang behind the Chinese opposition to Japan and to some extent disposes of the persistent rumor that the General is much less enthusiastic than some of his countrymen in leading active opposition to the Japanese aggressions. T. V. Soong, Finance Minister, reported that the national budget had been balanced, notwithstanding the expenses of the anti-Communist campaigns, flood relief and the cutting off of all revenue from Manchuria. Most important was the evident satisfaction over the growing amity with Russia. The Chinese are, at the same time, deriving no little satisfaction from the fact that some Chinese bonds are now priced in the foreign market above those of Japan.